example in some degree is being followed by the great nations of the Continent.

After the Napoleonic Wars Pitt said that England would save herself by her exertions and Europe by her example. In the following pages I have endeavoured to trace the movements which have made this possible in these days, and to point out the advantages of such a course.

My thanks are due to Mr. John Murray, Principal of University College of the South West of England, Exeter, in the first place for his insistent suggestion that I should write such a book, and secondly for his invaluable criticism of the manuscript. I should like also to include an appreciation of the faithful services in arranging and typing the manuscript of my daughter Christian Helen.

D. M. M.

February 27th, 1928.

But the whole business of a successful Chancellor of the Exchequer depends upon his skill and accuracy in gauging the future and in directing his policy so that in large measure it will govern his expenditure and enable him to frame his measures accordingly. Thus a successful outcome of the recent Disarmament Conference between the United States, Japan, and this country would have reduced the expenditure of capital upon unreproductive objects, and would therefore have increased the loanable capital available and accentuated the downward tendency in the rate of interest. But it appears to have been Mr. Churchill's influence in the Cabinet which helped to wreck the Conference and thus added to the Chancellor's difficulties in the framing of his conversion proposals. Another foolish arrangement has been entered into, namely, the attaching to these conversion loans of a special sinking fund which is supposed to help to maintain the price of the stock. This is illusory and may lead to the same result as befell with the 5 per cent. War Loan, which has a similar condition attached to it, namely, a compulsion for the Government, when there was a deficit, to borrow at a higher rate of interest in order to pay off debt bearing a lower rate of interest. The only real sinking fund is a surplus over and above the expenditure of the year. It was well stated by Robert Hamilton, an acknowledged authority, in 1814, that 'The excess of revenue above expenditure is the only real sinking fund by which public debt can be discharged. The increase of the revenue and the

diminution of expense are the only means by which this sinking fund can be enlarged and its operations rendered more effective. And all schemes for discharging the National Debt by sinking funds operating by compound interest or in any other manner unless so far as they are founded upon this principle are illusory.'

Whatever sums are brought into the money market and applied by the Commissioners for the purchase of stock, equal sums are withdrawn from the money market by the additional loans required to replace what is invested in the hands of the Commissioners. In other words, the price of stock like that of any other commodity depends on the law of supply and demand. All Government stocks move up and down more or less together. The rate of interest and the price of stocks are, as has been repeatedly stated, in the main governed by the proportion which the loanable capital of the world bears to the fixed or funded capital.

If this is increased by economy and profitable trade the rate of interest will fall and the general price of stock will rise. In 1929 an opportunity will occur to refund, if possible, at a lower rate, over £2,000,000,000 of 5 per cent. War Loan. To enable this to be done at a less rate than the existing rate of 5 per cent. will require a heroic policy on the part of the present Government and the most favourable conditions throughout the rest of the civilised world. The omens at present are not particularly bright for carrying through such a con-

version scheme. The general situation, however, is not without encouraging circumstances, and it is possible that the truths which are here portrayed are being realised by an increasing number of people. If a change should take place in the world's attitude towards these questions a rapid and complete transformation in the economic conditions of the world may be nearer than many people expect.

There is an inclination in some quarters to interfere with the free flow of economic forces by artificially 'pegging' or supporting the exchange between countries which have recently restored the gold standard. Italy, it is stated, has made arrangements with the Bank of England in agreement with the Federal Reserve Bank of New York for a Central Banks' Credit in which fifteen Central Banks in Europe and the United States are expected to participate. In so far as this is an indication of confidence by the rest of the world in Italy's determination to maintain the gold standard, it may do good. But to use such credits for the purpose of supporting the exchange is to defeat the object aimed at and to prevent the functioning of the gold standard. Similar arrangements were made in the Gold Standard Act in this country and it was stated in the Press, as referred to in a previous chapter, that such credits were being used for the purpose of supporting the exchange between this country and the United States of America. In *The Economist* and other journals I denounced such action as being unsound and likely to withdraw from the British exporter a

legitimate advantage which he might temporarily enjoy from a fall in the exchange. The stimulus thus given to the export trade will itself tend to correct the adverse exchange. As a result of my protest I was authoritatively informed by the Treasury that the Press report was incorrect and that no use had been made of the credits which had been arranged. Subsequently these credits were denounced as unnecessary and I understand that they have been cancelled. The success of a conversion scheme depends upon many circumstances. The attempt to fund into a long termed security should only be made when the market conditions both at home and abroad are favourable. The return of the various countries in Europe to the gold standard makes for confidence and improved credit all over the world. It will provide that stability of exchange which is the foundation of foreign trade, and increase the power of monetary centres, like London and New York, to finance conversion schemes and other undertakings on the most favourable basis. It is true that activity of trade tends to make money dearer through the increased demand for loanable capital, but the increase in the production of new capital is so rapid that this effect is largely offset. Another factor making for easier monetary conditions is the release of 'frozen' credits as a result of improved trade.

'Frozen' credits are advances or overdrafts which have been made to traders and others both in this country and on the continent. They represent a

large sum which the borrowers at the present time are quite unable to repay. Some part of these may, perhaps, never be repaid and will require to be written off as bad debts. It has been suggested that amalgamation of the embarrassed firms might offer a solution of the difficulty. But if money or credit has been recklessly furnished and unwisely used, no such measures will restore that which is lost. On the other hand, the advances made may rest on good security and the question of repayment—the sole issue—depends upon a revival of trade. Should such a revival take place the activity and heat generated will thaw the credit and, under the stimulus of profitable trading, the advance or overdraft will gradually be repaid and add to the supply of loanable capital. Assuming a period of prolonged peace we may look forward to a further fall in the rate of interest and therefore to more favourable conditions for converting the debt.

In some quarters there has been a strong disposition to call for a substantial increase in the Sinking Fund for the redemption of the Debt. £100,000,000 is the figure named by these enthusiasts for debt reduction. I sympathise with the feelings which prompt the cry for such action. But the matter calls for the most serious consideration. Strange as it may appear there can be such a thing as a too rapid repayment of the debt. For when large sums are suddenly forced upon the money market in the absence of a correspondingly large demand for such loanable capital, the effect is bad

and apt to lead to wasteful speculation. An excessive statutory sinking fund, by entailing an excessive taxation, hinders and cripples trade. A reduction in these burdens stimulates trade and tends to expand the revenue and to add to the surplus which goes automatically to the reduction of debt. This is exemplified to-day in the United States of America, where large surpluses are being used for the redemption of debt, and also the reduction of taxes. America to-day, with abounding prosperity and an easy money market, is refunding the National Debt on a 3 per cent. and 3½ per cent. basis. This is of good augury for Britain and for Europe in general. America has become a large investor in foreign loans. In 1926, according to a recent statement, the United States led the world in the amount of foreign loans issued, as will be seen from the following table :

	Amount Issued.	
Countries.	In Dollars.	In Sterling.
United States	1,134,000,000	£226,800,000
Great Britain	560,000,000	£112,000,000
Holland	116,000,000	£23,200,000
Switzerland	78,000,000	£15,600,000

The New York *Evening Post*, from which the above figures are taken, says: 'Although the United States is thus the leading exporter of capital, the percentage of foreign loans total issues in the United States is relatively small amounting in 1926 to but 18 per cent. Foreign issues offered in Great Britain in that year were 44 per cent. of total offerings.' I believe the amount of foreign loans issued for 1927 amounted to £400,000,000. There is no

occasion for envy on the part of Europe that America should be in this happy position. What would Europe have done had America not been in a position to lend? The hope may be expressed that a just discrimination will be exercised towards these foreign loans, and that the borrowed money will be wisely expended. Should such prove to be the case there appears to be no reason why this fruitful supply of loanable capital should not continue to flow across the Atlantic for many years to come.

Mr. Parker Gilbert, the Agent General for Reparations, stresses this point in a recent memorandum addressed to the German Government on over-spending and overborrowing. He also records the fact that so far as the Experts' Plan is concerned Germany has loyally and punctually made payment in full. He observes, however, that the fundamental conception of the Dawes Plan was that of a 'settlement extending in its application for a sufficient time to restore confidence,' a settlement framed 'to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible.' It was in that conception that the experts refrained from fixing the total of the reparation debt. The advantages to France, Belgium and ourselves which will flow from a final agreement on this question are incalculable. Both France and Great Britain have large amounts of debt maturing from time to time and requiring to be dealt with as they fall due. If an agreement can be reached on the question of

German reparations an embarrassing factor of uncertainty will have been removed from the international money market to the advantage of both countries. In a former chapter on the Dawes Scheme I suggested the possibility and advisability of an International Conference being held when the debt agreements had been ratified between the various governments. Since that chapter was written I observe that the New York *Journal of Commerce* gives publicity to a scheme for a comprehensive settlement of the problems of reparations and inter-allied debts. This scheme would be presented to an international conference to be called before the middle of this year. The plan proposes the fixing of a definite total for reparations much below the aggregate payments fixed in the Dawes Plan ; the sale of a large amount of German bonds for the immediate benefit of France ; the cancellation of British claims on Germany ; and the issue of additional German bonds in the United States in full payment of the so-called inter-allied debts due to this country. It is claimed for this plan that French credit would improve and that the ending of the interminable discussion and irritation caused by this matter among all the nations would help to improve credit everywhere and tend to bring down the general rate of interest. The importance of this suggestion cannot be gainsaid. Every support possible should be given to the consideration of the matter. The happy solution and settlements of these international problems will pave the way to a successful conversion

of the national debt, both in this country and elsewhere. It is unnecessary, surely, to enlarge on the advantages which would follow the settlement of these matters. It would help to consolidate and guarantee the peace of the world. Fear and a desire for security are the principal motives which promote large armaments. It follows, therefore, that a conviction of real peace and security must precede a reduction of armaments and possible abolition of war. If the American proposal for a general pact among all nations to refer their disputes to arbitration is agreed to, and there appears to be no valid reason against this, a reduction in armaments will follow. This, as I have previously stated, is of supreme importance. It opens up a chapter in the history of the world which will bring hope and a vision of progress to millions. The purchasing power of every wage-earner will be increased. The setting free of large masses of loanable capital which have formerly been expended will stimulate development in every direction.

Reduction of armaments will not come all at once and ignorance and vested interests will fight hard to retain the old ways, but time has power and hard economic necessity will compel an adjustment. Out of evil good will come and the pressure of international debts which are checking the recovery of many nations will persuade them to adopt this remedy. As the world recovers and feels the benefit, the recovery will gather momentum and speed and the day will come when many, looking back, will wonder that it has taken us so long to realise where our real interest lay.

VII

TAXATION

In a written reply to Sir D. E. Newton, the Financial Secretary of the Treasury, Mr. A. M. Samuel stated that the taxation per head in the United Kingdom for 1913-14 was £2 11s. 4d. and that for 1926-27, excluding the Irish Free State, it had risen to £14 11s. 8d. The corresponding figures for other countries were: France £3 6s. 6d. and £7 6s. 9d.; Germany £1 10s. 6d. and £5 10s. 7d.; Italy £2 2s. 1d. and £4 7s. 6d. and the United States £1 7s. 10d. and £6 3s. 0d. These very significant figures indicate the handicap under which this country labours in competing in industry against countries less heavily taxed. In comparing the figures for the United States and Germany with ours, we must remember that we are still largely a free trade country and that these other countries, therefore, have to add to their figures the proportionate increase due to the imposition of a high tariff. But after allowing for this the increase in direct taxation from £2 11s. 4d. to £14 11s. 8d. in the case of Great Britain constitutes so heavy a burden that every effort should be made to reduce it.

'Adam Smith's classical canons,' as Mr. G.

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Armitage Smith[1] reminds us, ‘ have come to be generally accepted as the recognised rules for guidance in taxation.’ Adam Smith advances four regulative principles : Equality, Certainty, Convenience and Economy. At a glance we see how far this country has departed from its adherence to them. Take, for example, Mr. Churchill’s tax in his last Budget on Translucent Pottery by weight. This tax presses hardest upon poor people, who buy thick cups and saucers and, therefore, have to pay a proportionally higher taxation than the well-to-do who buy lighter and dearer makes. What stupid taxes are these on entertainments, betting and other pettifogging imposts of a similar character. Apart from moral considerations, they are unequal, uncertain, inconvenient and expensive to collect. A graduated income tax is the best of all engines for taxation purposes and some enthusiastic supporters of this tax would like to see it applied to all incomes in all classes upwards and downwards, and indirect taxes entirely abolished. ‘ I do not hesitate to say,’ exclaimed Mr. Gladstone in his Budget speech of 1860—thus laying down one of the most valuable principles of taxation, ‘ that it is a mistake to suppose that the best mode of giving benefit to the labouring classes is simply to operate on (*i.e.* to free from taxation) the articles consumed by them. If you want to do them the maximum of good you should rather operate on the articles which give them the maximum of employment.’

[1] *Principles and Methods of Taxation*, by G. Armitage Smith.

Apply this principle to the Safeguarding Act which may produce employment in the trades affected by the Act, but which leads to a reduction of the maximum of employment throughout the country. Let us examine the effects of the Act in detail as applied to two trades, Lace and Embroidery and Cutlery. According to Mr. Brunker of the Free Trade Union, 'On May 10, 1927, the President of the Board of Trade made a statement showing "The imports, exports and re-exports of goods now subject to Safeguarding Duties." This table contains the figures relative to goods protected by the duties technically known as Safeguarding duties only.'

LACE AND EMBROIDERY IMPOSED, JULY 1, 1925.

	1924	1925	1926
Total Imports -	£2,331,000	£1,398,000	£607,000
Re-Exports - -	1,833,000	827,000	103,000
Net Imports - -	498,000	571,000	504,000
British Exports -	2,621,000	2,384,000	1,949,000
Total Trade -	£7,283,000	£5,180,000	£3,163,000

CUTLERY IMPOSED, DECEMBER 22, 1925.

Total Imports -	£475,000	£1,232,000	£329,000
Re-Exports - -	108,000	81,000	61,000
Net Imports - -	367,000	1,151,000	268,000
British Exports -	1,025,000	1,067,000	1,013,000
	£1,975,000	£3,531,000	£1,671,000
Add Lace Total -	7,283,000	5,180,000	3,163,000
Total Trade -	£9,258,000	£8,711,000	£4,834,000

It will be seen that the total aggregate amount of the value of these two trades fell from £9,258,000 before the duties were put on in 1924 to £4,834,000

after the duties were imposed in 1926. If only these facts and figures were studied and understood there would, I believe, be very few defenders left of these foolish duties. The figures require to be studied in detail. If we take the figure for British Exports, we find a comparatively small reduction, and if we look at the figure of Total Imports, we find a considerable reduction. This last rejoices the heart of the tariff reformer who desires to stop all imports, but he forgets the trade in re-exports which shows a large reduction, and this trade, as a result of the duties, is being lost to Great Britain. I believe it is right to state that French buyers of silk goods who formerly purchased in London now go direct to Lille. Then there is the loss incurred by the shipping and transport companies who are deprived of this re-export business as a result of the duties. If this had been retained as in former years, the charges earned by British shipping companies would have gone to swell our invisible exports. It will be noticed that there is no compensation for the falling-off in imports. On the contrary there is a severe loss in the aggregate total of both these protected trades.

Mr. Gladstone in his financial statement of 1860 said, ' that the number of articles subject to Customs' duties on the 1st of January, 1845, amounted to 1163 articles. In 1853 the number of articles was 466, and on the 1st January, 1859, it was 419.' After the changes which Mr. Gladstone proposed in 1860 the number fell to forty-eight, so that in one budget he proposed to sweep away the duties on

371 articles. His argument was that although he might lose revenue temporarily on the articles liberated from duty, he emancipated industry and gave such a stimulus to trade that the general revenue expanded and the area of employment was widened in every direction. The result was beyond his expectations, for the foreign trade of this country in the year before the Great War was the largest in the history of the world. If we desire to regain the ground that has already been lost, we must sweep away these so-called safeguarding duties, emancipate industry from the restraints which at present are hindering the recovery in trade. With these things done we may look forward again to a similar expansion. Those who defend these safeguarding duties would have us believe that the restriction on imports is made up by a corresponding increase in the home trade. They also believe that the loss in foreign trade will be compensated for by trade within the Empire. Neither of these contentions is borne out by the facts. To suppose that taking in each other's washing, to use a popular phrase, will compensate this country for the loss of the foreign trade by which it lives, is to talk as men bereft of reason. Our total trade to Foreign Countries in 1926, Imports, Exports and Re-Exports, amounted to £1,317,064,000, whereas our total trade to the British Empire amounted to £699,836,000. By all means let us encourage the growth of the idea of free trade within the Empire, but let us have no illusions on the subject. These great dominions are building up, or have built up,

their own manufacturing industries. In some quarters there is a growth of free trade sentiment, but the majority of the people in the dominions still adhere to a belief in tariffs and some form of protection.

The Labour Party in this country has put forward a proposal for additional taxation in the form of a sur-tax on unearned incomes. Mr. Snowden recently stated that one of the main influences retarding trade recovery was the burden of taxation, that is the enormous sum it takes out of industry. But he justified the imposition of the sur-tax if it was used for the repayment of the national debt, and Mr. William Graham also advocated the more rapid reduction of debt by heavier taxation of the wealthy. Mr. Graham qualified this by stating that no Labour Chancellor of the Exchequer would be such a fool as to recommend a tax which definitely created unemployment. This is precisely what the sur-tax will do. It will immediately affect the price of gilt-edged securities and thus increase the cost of converting the debt. It will tend to make money dearer and thus affect the price of loanable capital and cripple trade. It is unwise to tax capital if trade is thereby embarrassed seriously, and it is possible to have a too rapid repayment of debt if it is done at the expense of the general trade and prosperity of the country. Mr. Gladstone was criticised at one time for adhering too closely to this principle of reduction of taxation before reduction of debt, but he proved to be right. The soundest finance is to

endeavour to reduce taxation, and thus to stimulate trade and widen the area of employment. As the revenue expands through the activity of trade a surplus is created, and this surplus under the old sinking fund automatically goes to the reduction of debt. The rate of interest will then tend to fall, and make the conversion of the debt easier and less costly. The aim of a sound financial policy must always be to get rid of restrictions and reduce burdens, so that trade and industry may develop to the utmost.

I remember the author's father discussing the future rivalry in trade which was likely to take place between this country and the United States of America. He stated that the victory would go to that country which was most economically governed. Taxation per head in this country amounts to £14 11s. 8d. compared with £6 3s. 0d. in America. We still retain our free trade system which gives us some advantage, but the disparity in direct taxation is disquieting, and demands that every effort must be made to remove it. It is a fallacy and unsound to argue, as the extreme Socialist does, that it is a sound policy to tax and use proceeds for social services. The poor we shall always have with us, and it is our duty to provide for them, but our whole aim should be to get rid of taxes and imposts of all kinds; liberate thought, effort, energy in every direction should be the aim of civilisation. Freedom has been the breath of our nostrils, freedom of trade, freedom in land, religious freedom and freedom from

taxes. These things have made us what we are, and they are worth preserving. In such an atmosphere trade and commerce will expand and the triumphs of the future will far outdistance the records of the past.

We shall never, I suppose, get rid of taxation. It was Lincoln, I think, who said there were two things certain in life, namely, death and taxation. The whole art and genius of a Chancellor will depend on his mastery of finance, and not the least of these is fidelity to the principles and practice of economy. Gladstone well said: 'All excess in public expenditure beyond the legitimate wants of the country is (he insisted) not only a pecuniary waste but a great political and, above all, a great moral evil. It is characteristic of the mischiefs that arise from financial prodigality that they creep onward with a noiseless and stealthy step: and they commonly remain unseen and unfelt until they have reached a magnitude absolutely overwhelming.' We are experiencing that state of affairs to-day. Yearly budgets of over £800,000,000 succeed one another. No real effort is made to bring about a substantial reduction. The expenditure which has crept onward and upward has come to be thought inevitable, and the efforts of the Chancellor of the Exchequer are concentrated upon how to devise new taxes and fresh sources of income. There is no advantage in multiplying taxes. On the contrary taxes should be few, and they should also be equal according to Adam Smith: 'the subjects of every State ought to con-

tribute towards the support of the government as nearly as possible in proportion to their respective abilities, *i.e.* in proportion to the revenue which they respectively enjoy under the protection of the State.' This canon is or ought to be the foundation of a sound system of taxation. The other three canons are rules for carrying out this principle and are as follows :

(*a*) 'The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.'

(*b*) 'Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.'

(*c*) 'Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State.'

These apparently simple rules, if applied to our present system of taxation would mean, and ought to mean, the repeal of many foolish and vexatious taxes. Buckle, in his *History of Civilisation*, says that some of the greatest triumphs in history have been the repealing of the bad laws of the past. Few taxes, in the sense of a small number of taxes, but taxes which are just and fall upon all citizens of the State in a fair and equitable manner, according to each citizen's ability to pay them, should be the aim of a wise government. Circumstances, of course, alter cases, and a system of taxation might suit one

country and prove quite unsuitable in another. But principles are eternal and the nearer a government can conform to what may be regarded as sound principles, the better. It is a sound principle in British administration, that where public money is concerned there should be public control. Therefore bounties, subsidies and grants in aid should as much as possible be avoided.

Let us apply these rules of Adam Smith to our existing taxes. The income tax exactly fits rule (*a*). It is certain and not arbitrary. It is clear as to time, manner of payment and quantity. It fits rule (*b*) in being convenient so far as any tax can be convenient, and it fits in with rule (*c*) in the sense that it is economical in collection. Betting and indirect taxes are contrary to these rules in that they are arbitrary, cumbersome and unequal, and in many cases costly in collection in proportion to the amount received. Indirect taxes interfere with trade and production and therefore retard the production of wealth.

VIII

CONCLUSION

THE sum of the whole matter may be described as follows. In August, 1914, Europe was like an ant-hill which was suddenly disturbed by the kick of a jackboot which scattered and upset the mound in every direction. The ants are now getting together again with the object of restoring and rebuilding the structure. It is a long process requiring infinite patience, skill and industry, but the progress made has, in some respects, been wonderful and can only be realised by comparing to-day's condition of affairs with a few years ago. Much still requires to be done, but we are well equipped for the task. The League of Nations is not yet fully developed, but what a marvellous instrument it has proved itself to be! Its triumphs in averting war and in the financial and economic reconstruction of many countries have been remarkable. Finance leads the way and a sound monetary policy is essential. The gold standard has been triumphant all along the line. An English merchant and forerunner of Adam Smith, Sir Mathew Dicker, wrote in 1743:

> Gold is the strength, the sinews of the world:
> The health, the soul, the beauty most divine:
> A mask of gold hides all deformities:
> Gold is heaven's physic, life's restorative.

When this golden thread runs between all the nations of the world a stability of exchange will be provided which will be of immense service to trade. Confidence will be engendered and contracts will be entered into which no business man would have dreamt of engaging in some years ago. Caution and circumspection will still as always be necessary, but the ground on which a trader operates will now be solid ground and the fear of a sudden collapse of the exchanges will have disappeared.

There are still a number of questions awaiting final settlement, such as German Reparations and Inter-Allied Debts ; but I have no doubt that if the same patience and skill is pursued as characterised the past negotiations, a happy solution will be found for any difficulties which may arise. In France everything points to a stabilisation of the franc after the elections in April, probably at or about the present rate of exchange. Problems of taxation and conversion of the National Debt can only be settled by having regard to the conditions prevailing at the time.

A sound monetary policy is a necessary element for all questions pertaining to a civilised state, and if the narrative of some of the important events which have taken place during the past fourteen years and the endeavour to lay down certain principles believed to be necessary to promote such a policy are found to be helpful, then the author will feel that this effort has not been in vain.

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I

THE CURRENCY AND BANK NOTES BILL

THE first departure from our pre-war currency took place in August 1914, when Mr. Lloyd George, the then Chancellor of the Exchequer, introduced to the House of Commons the Currency and Bank Notes Bill. This was a bill to authorise the issue of Currency Notes and to make provision with respect to the Note issue of Banks. It was a necessary measure in view of the panic prevailing at the time, and the demand on the part of the public for some form of cash to meet their requirements. This prompt action on the part of the Chancellor in conjunction with other steps were successful in allaying the panic and restoring confidence, but the danger of giving such large powers of issuing currency notes for one pound and ten shillings to the Treasury without limit remained, and was likely to be abused. I was apprehensive that this would happen, and on a number of occasions in the House of Commons pressed the Chancellor to show what provision had been made to guard against this taking place, and pointed out the results which would inevitably follow, such as a rise in the prices of commodities, derange-

ment of the exchanges, and the hoarding and export of gold. I obtained little or no satisfaction. It may be asked why these things should happen as a result of issuing or rather over-issuing currency notes which were well secured, and a direct obligation of the State. The answer, as many people know, is that each country is capable of absorbing and maintaining at parity only a given amount of circulation for its internal needs and operations connected with its trade and commerce. Trade is a system of barter, and if a sudden increase in the purchasing power of a community is provided by the Government's creating or obtaining credit, and issuing paper money against it, there is a consequent rise in the prices of commodities as a result of the increased demand. Imports are stimulated and increased because such a country becomes a good country for other countries to sell their products in. The balance of payments with other countries turns against such a country, and the exchanges become unfavourable and lead to an export of gold. All these things happened in due course and became intensified in those other countries which committed these financial faults to a greater extent than this country did. Gresham's well-known law of currency began to take effect, *i.e.* that where two forms of money are in circulation that which is inferior, or less valuable, namely paper, will remain in circulation, and that which is more valuable, namely gold, will be either hoarded or exported when the sum of the two is in excess of the wants of trade. In spite of all protests the issue of

currency notes continued, with the result that, in due course, gold disappeared from the circulation and was exported.

To stop the gold drain the Government prohibited the export of the precious metal. That meant to all intents and purposes that our paper money was inconvertible. The Currency and Bank Notes Act provided under Section (3) Clause 1 that 'the holder of a Currency note shall be entitled to obtain on demand during office hours at the Bank of England payment for the note at its face value in gold coin which is for the time being legal tender in the United Kingdom.' But this provision was valueless in view of the subsequent prohibition to export the gold coin which might be obtained. The printing presses were now in full working order in most of the belligerent countries and a period of high prices, deranged exchanges and general extravagance became prevalent. As a result of these years of dislocation the gulf between rich and poor has been widened and the work of social reform put back for a generation. Daniel Webster, in a powerful passage in a speech delivered in New York in 1837, declared this violation of the currency to be one of the most unpardonable of political faults. He said 'the prosperity of the working classes lives, moves, and has its being in established credit and a steady medium of payment. All sudden changes destroy it. Honest industry never comes in for any part of the spoils in that scramble which takes place when the currency of a country is disordered.' . . . 'Did wild schemes

and projects,' he asked, ' ever benefit the industrious? Did irredeemable bank paper ever benefit the laborious? Did violent fluctuations ever do good to him who depends on his daily labour for his daily bread? Certainly never. All these things may gratify greediness for sudden gain, or the rashness of daring speculation ; but they can bring nothing but injury and distress to the homes of patient industry and honest labour.' We have seen all this exemplified in the misery and distress which followed in the train of the orgy of inflation which took place in Russia, Germany, France, and Italy, and also in this country. The costly strikes and disputes which have taken place during the last ten years may be traced to this cause, and we are only gradually groping our way back after many tribulations to the foundation of a sound currency based upon gold.

The chaos and confusion coupled with the distress which prevailed led naturally to all sorts of remedies being suggested. Our pre-war monetary system was attacked on all sides. First by the inflationists who desired more inflation, and secondly by those who thought or endeavoured to prove that our troubles were due to monetary policy and that it was a mistake to attempt to restore the gold standard.

Mr. J. M. Keynes was perhaps the most active and certainly one of the most able of these would-be reformers. In his book called *A Tract on Monetary Reform*, he offers certain suggestions ' for regulating the supply of currency and credit with a view to maintaining so far as possible the stability of the

internal price level ' and ' for regulating the supply of foreign exchange so as to avoid purely temporary fluctuations,' etc. etc. This is, indeed, a confusion of thought. The gold standard, as I shall endeavour to show, does tend to regulate our export and import trade, so that they may go forward together and develop to the utmost extent, but when you have a free market in gold it is the trade and commerce which controls the currency, and not the currency which controls the trade. But to attempt to regulate the supply of currency and foreign exchange in order that they may help to maintain the price level which by its fluctuations indicates the state of your trade is like an attempt to regulate the weather-glass without having any regard to the condition of the temperature which has affected the indicator.

Sumner makes this very clear in his *History of American Currency*, when he states that where there is convertibility ' Speculation in the widest and best sense controls the mount of currency. On an inconvertible system the amount of the currency controls speculation. If it is not redundant its effect is slight, if it is very excessive it floats everything and becomes the controlling consideration.' A system of managed currency which is inconvertible would tend to control speculation, trade, or prices, and float everything. Such a system would almost certainly be abused and would therefore lead to great misery and loss. It is this element of convertibility into gold which acts as a check upon redundancy and inflation, and is infinitely superior to any

known system of managed currency which lacks this provision.

When inconvertibility of paper money into gold prevails in any country, the currency then controls the trade and commerce, but the difficulty is to arrive at a correct decision as to the amount of currency and credit which will enable a sound trade to be carried on. A sound trade means both exports and imports going forward together.

Anything therefore which intervenes in the slightest degree with either the export or import trade of a country tends to hinder the development of its trade. If the people throughout the world could only be convinced of this and gradually abolish all customs and restrictions, the mind can hardly conceive of the transformation which would take place. It may sound contradictory to speak or write about a sound currency system based on the gold standard as being advantageous when it intervenes with your trade, but that is only because it functions with a view to the development of that trade. Its operations penalise or to some extent retard excessive imports at one time only with a view to increasing exports and imports again when the state of trade justifies it. It is a wonderful mechanism, delicate and elastic, largely automatic in its operation and a tribute to the ingenuity of man.

In other words you cannot export without importing, and anything which interferes or restricts your imports by tariffs or any other artificial restriction will reduce your exports and your aggregate

trade. The functioning of the gold standard when it appears to interfere with trade is in this wise. Business is active. Money is cheap and there is an excessive importation of goods as a result of the sanguine expectation and speculative spirit which prevails. This leads to the balance of payments going against this country. The exchange falls and it becomes profitable to export gold. A gold drain sets in and the reserve falls to such a point that the Directors of the Bank of England are compelled to raise the rate of discount. That tends to reduce prices, check the excessive importation and turn the exchanges in our favour again. The effect is a temporary check upon trade but it leads to financial soundness and is ultimately beneficial.

The fundamental error which pertains to the teachings of these latter-day critics of our financial system consists in their anxiety to maintain stability of the price level instead of seeking to restore stability of exchange. If stability of exchange can be restored on the basis of a common denominator, namely gold, then the price level will adjust itself to a common level throughout the world.

Currencies may vary in their various tokens throughout the world, but if they are based upon the gold standard although possessing a separate unit this will unite them and constitute a World Money which will be current to some extent and be exchangeable throughout the countries which adopt such a standard. Just as we have coins and notes of other countries readily becoming exchangeable

when a gold basis has universally been agreed upon. Many writers imagined because there was a large accumulation of gold in the United States of America that it was unnecessary to do anything in this country to restore the gold standard, and that matters would adjust themselves through a rise in the prices of commodities in America. This did not take place, and there is no reason to believe that when there is convertibility as in America the mere transference of a large part of the world's supply of gold to that continent will necessarily mean high prices in that country. A large addition to the world's supply of gold through the discovery of a new goldfield would undoubtedly lead to a substantial rise in gold prices throughout the world, but not the transference of a part of the existing supply from one country to another. Such movements affect credit and prices to some extent, but do not substantially affect values unless there is a breakdown or severe contraction of credit.

The reason being that if a temporary inflation of the currency throughout America had existed as a result of the large influx of gold, it would have been corrected through the power to convert. There was no such inflation, and prices of commodities did not rise as many people expected them to do. If inflation had taken place, there would have been an excess of imports, the exchange would have become unfavourable, and gold would have been exported which in due course would have corrected the unfavourable exchange.

The rate of exchange between gold standard countries is mainly affected by the balance of payments and not by the so-called balance of trade as is popularly supposed. That is to state that the balance derived from exports and imports of commodities, invisible exports such as amounts due for shipping and other services, imports and exports of securities incurred as a result of loan and credit operations, movements of loanable capital, etc., all culminate in the balance of payments and have a direct effect on the rate of exchange. When war broke out, an additional cause came into existence, namely, the inflation of the currency, which, gradual in its effects at first, but as a result of the continuous issue of the currency notes increasing as time went on, was going to depress the exchanges permanently, increase the prices of commodities, stimulate waste and extravagance in every direction, and lay up a host of troubles which would remain and harass us for many years to come. To point out all this at the time appeared to be a thankless task, but there were always some people who were willing to listen, and many voices were to be found in various parts of the country sounding a warning note which became louder and more pronounced as the fever developed and finally spent itself. These conquered eventually and helped to bring nearer the day when sound finance and sanity would again prevail.

There was involved, moreover, in this debasing of the currency a moral principle which was entirely ignored by those who were opposed to the restoration

of the gold standard, and by those who were desirous of introducing new forms and methods in our monetary system. I have already referred to the obligation contained in Section (3) Clause 1 of the Currency and Bank Notes Act which guaranteed to the holder of a note the right to demand payment for the note at its face value in gold coin, which is and was for the time being legal tender in the United Kingdom. Although this provision was not repealed it was rendered valueless, as I have stated, by the subsequent prohibition to export the gold coin which might be obtained. That meant the breaking of a contract and repudiation. The purchasing power of the pound was reduced, and to the extent to which this was effected by an excess issue of currency notes the holders of the notes were mulcted of the difference. It is true that those people who furnished fresh money in depreciated currency for the loans which were issued to carry on the war are now obtaining an increased return for their investment. But this fact does not invalidate my statement that there was a moral obligation to restore as soon as possible that right to convert into gold coin or bullion and freedom to deal with the proceeds of such conversion which was involved in the original contract.

During the inflationary period there appeared to be ease and prosperity on all sides. Money was cheap and plentiful and everything floated on the bountiful waters of an artificial prosperity. Factories, mills, and industrial projects generally had no difficulty in obtaining capital, and were no doubt

over-capitalised and floated on the money market without any difficulty. This pleasant state of affairs could only continue provided the source of credit was inexhaustible, and that we well know to be impossible. One of two things had then to take place. When the fever had abated a nation like Great Britain either had to decide to restore the pre-war gold standard and was willing to pay the price, painful and costly in some directions, of a national adjustment, or else the will to do this was lacking and the easier and less courageous course was adopted of proceeding with inflation or, as in the case of Germany, Russia, Belgium, Italy, and probably France, of devaluing their currencies and adopting a new unit of value as their future standard. In the nature of things the latter course must take time, but considerable progress has been made in this direction. To borrow Canning's fine description of the situation after the Napoleonic Wars, 'the tumult of the waters on the continent was subsiding and once again the spires and minarets of former cities were appearing from amidst the flood.'

In pre-war days the exchange between gold standard countries hardly varied by more than $\frac{1}{16}$ or $\frac{1}{32}$, and the question of exchange or the fluctuations in exchange very seldom entered into the calculations of a trader or merchant who desired to develop a foreign trade. See Tables I., II. and III., taken from the daily quotations published in the *Times* newspaper.

TABLE I.

FOREIGN EXCHANGES.

July 1, 1914.

	June 30.	June 29.	June 27.
Paris, cheque -	25 f. 15–16 c.	25 f. $15\frac{1}{2}$–$16\frac{1}{2}$ c.	25 f. $17\frac{3}{4}$ c.–$18\frac{3}{4}$ c.
„ Bank rate -	$3\frac{1}{2}$%	$3\frac{1}{2}$%	$3\frac{1}{2}$%
„ Mkt. discount	$2\frac{3}{4}$%	$2\frac{3}{4}$%	$2\frac{3}{4}$%
Brussels, cheques	25 f. $35\frac{1}{4}$–$6\frac{1}{4}$ c.	25 f. 35–36 c.	25 f. $35\frac{3}{4}$–$6\frac{3}{4}$ c.
Berlin, sight -	20 m. $50\frac{1}{4}$–$1\frac{1}{4}$ pf.	20 m. 50–51 pf.	20 m. $50\frac{1}{2}$–$1\frac{1}{2}$ pf.
„ 8 days - -	20 m. 48 pf.	20 m. 48 pf.	20 m. 48 pf.
„ Bank rate -	4%	4%	4%
„ Mkt. discount	$2\frac{3}{4}$–3%	$2\frac{7}{8}$–3%	$2\frac{7}{8}$–$3\frac{1}{8}$%
Vienna, sight -	24 kr. 16–8 h.	Closed	24 kr. 17–9 h.
Amsterdam, sight	12 fl. $12\frac{3}{8}$–$\frac{7}{8}$ c.	12 fl. $12\frac{3}{4}$–$3\frac{1}{4}$ c.	12 fl. $12\frac{5}{8}$–$3\frac{1}{8}$ c.
Italy, sight -	25 lr. $24\frac{1}{2}$–$6\frac{1}{2}$ c.	25 lr. 24–6 c.	25 lr. 25–7 c.
Switzerland -	25 f. 20–21 c.	25 f. 21–2 c.	25 f. 21–2 c.
Madrid, sight -	26 p. 78–88	Unsettled.	26 p. 00–10
Lisbon, sight -	$45\frac{7}{8}$–$6\frac{3}{8}$d.	$45\frac{3}{4}$–$6\frac{1}{4}$d.	$45\frac{3}{4}$–$6\frac{1}{4}$d.
St. P't'rsbg., 3 ms.	95 r. 10	94 r. 75	94 r. 75
„ sight - -	95 r. 75–85	Unsettled	95 r. 60–70
Christiania -	18 kr. $23\frac{1}{2}$–$6\frac{1}{8}$	18 kr. $23\frac{1}{2}$–$6\frac{1}{2}$	18 kr. $23\frac{1}{2}$–$6\frac{1}{2}$
Copenhagen -	18 kr. $24\frac{3}{4}$–$7\frac{3}{4}$	18 kr. $23\frac{1}{2}$–$6\frac{1}{2}$	18 kr. $24\frac{1}{2}$–$7\frac{1}{2}$
Stockholm -	18 kr. $23\frac{1}{2}$–$26\frac{1}{2}$	18 kr. $24\frac{1}{2}$–$7\frac{1}{2}$	18 kr. $23\frac{1}{2}$–$6\frac{1}{2}$
Bombay, T.T. -	1s. $3\frac{31}{32}$d.	1s. $3\frac{31}{32}$d.	1s. $3\frac{31}{32}$d.
Calcutta, T.T. -	1s. $3\frac{31}{32}$d.	1s. $3\frac{31}{32}$d.	1s. $3\frac{31}{32}$d.
Hongkong -	1s. $10\frac{5}{8}$d.	1s. $10\frac{5}{8}$d.	1s. $10\frac{11}{16}$d.
Shanghai, T.T. -	2s. $6\frac{1}{4}$d.	2s. $6\frac{1}{4}$d.	2s. $6\frac{3}{8}$d.
Singapore, T.T.	2s. $3\frac{15}{16}$d.	2s. $3\frac{15}{16}$d.	2s. $3\frac{15}{16}$d.
Yokohama, T.T.	2s. $0\frac{3}{8}$d.	2s. $0\frac{3}{8}$d.	2s. $0\frac{3}{8}$d.
Alexandria -	$97\frac{11}{16}$ pi.	$97\frac{11}{16}$ pi.	$97\frac{11}{16}$ pi.
*Rio de J., 90 dys.	16d.	16d.	$16\frac{1}{16}$d.
*Valparaiso, 90 dys.	$9\frac{3}{4}$d.	$9\frac{3}{4}$d.	$9\frac{3}{4}$d.
*B. Aires, 90 dys.	$47\frac{3}{4}$d.	$47\frac{3}{4}$d.	$47\frac{3}{4}$d.
*M'tevideo, 90 dys.	$51\frac{1}{4}$d.	$51\frac{1}{4}$d.	$51\frac{1}{4}$d.
New York Cable Transfers -	—	4.88\frac{3}{4}$–4.89	—

* These rates are telegraphed on the day preceding their receipt.

TABLE II.

Foreign Exchanges.

July 1, 1919.

Fluctuations in the French exchange were somewhat wide, business being reported down to 29 f. 52 c.; the Brussels and Italian rates moved in favour of those countries. Rates on Holland, Spain, and Scandinavian countries went in our favour. The following rates were current yesterday:

Place.	June 30.	June 28.
Paris - - -	29 f. 52 c.–29 f. 78 c.	29 f. 63 c.–29 f. 68 c.
Brussels - - -	30 f. 74 c.–30 f. 78 c.	30 f. 80 c.–30 f. 83 c.
Amsterdam - -	11 fl. 81 c.–11 fl. 83 c.	11 fl. 78 c.–11 fl. 79 c.
Italy - - -	36 lr. 50 c.–36 lr. 65 c.	36 lr. 65 c.–36 lr. 70 c.
Athens - - -	24 dr. 30–24 dr. 40	24 dr. 30–24 dr. 50
Madrid - - -	23 p. 22–23 p. 26	23 p. 19–23 p. 23
Lisbon - - -	30 d.–30$\frac{3}{4}$ d.	30 d.–31 d.
Switzerland - -	24 f. 95 c.–25 f. 02 c.	24 f. 95 c.–25 f. 20 c.
Christiania - -	18 kr 42–18 kr. 46	18 kr. 36–18 kr. 40
Stockholm - -	17 kr. 95–17 kr. 98	17 kr. 84–17 kr. 90
Copenhagen - -	19 kr. 45–19 kr. 50	19 kr. 43–19 kr. 47
Helsingfors - -	56 m. 00–57 m. 00	55 m. 50–56 m. 50
Alexandria - -	97$\frac{15}{32}$ pi.	97$\frac{15}{32}$ pi.
Bombay - - -	1s. 8d.–1s. 8$\frac{1}{16}$d.	1s. 8d.–1s. 8$\frac{1}{16}$d.
Calcutta - - -	1s. 8d.–1s. 8$\frac{1}{16}$d.	1s. 8d.–1s. 8$\frac{1}{16}$d.
Madras - - -	1s. 8d.–1s. 8$\frac{1}{16}$d.	1s. 8d.–1s. 8$\frac{1}{16}$d.
Hongkong - -	3s. 6d.	3s. 6$\frac{1}{4}$d.
Yokohama - -	2s. 2$\frac{3}{8}$d.–2s. 2$\frac{11}{16}$d.	2s. 2d.–2s. 2$\frac{5}{8}$d.
Shanghai - -	5s. 3d.	5s. 3$\frac{1}{2}$d.
Singapore - -	2s. 4$\frac{1}{8}$d.–2s. 4$\frac{5}{16}$d.	2s. 4$\frac{1}{8}$d.–2s. 4$\frac{5}{16}$d.
New York - -	\$4.59$\frac{1}{2}$–\$4.60$\frac{1}{4}$	\$4.59$\frac{5}{8}$–\$4.60$\frac{1}{2}$
Montreal - -	\$4.73$\frac{1}{2}$–\$4.74	\$4.74$\frac{1}{2}$–\$4.75
*Rio de Janeiro -	14$\frac{5}{8}$d.	14 $\frac{21}{32}$d.
*Buenos Aires, T.T.	50$\frac{13}{16}$ d.–51$\frac{5}{16}$ d.	51 d.–51$\frac{1}{8}$ d.
*Valparaiso, 90 days	10$\frac{7}{8}$ d.	10$\frac{7}{8}$ d.
*Montevideo, T.T.	54$\frac{3}{8}$ d.–55$\frac{3}{8}$ d.	54$\frac{1}{2}$ d.–55 d.
*Lima - - -	7$\frac{1}{4}$% discount	7$\frac{1}{4}$% discount

* These rates are telegraphed the day preceding their receipt.

TABLE III.

February 24, 1928.

The following table gives the range of quotations within which business was reported yesterday :

Place.	Method of Quoting.	Par of Exchange.	Feb. 23.	Feb. 22.
New York* -	\$ to £	$4.86\frac{2}{3}$	$4.87\frac{13}{16}-88\frac{1}{16}$	$4.87\frac{23}{32}-87\frac{7}{8}$
Montreal* -	\$ to £	$4.86\frac{2}{3}$	$4.88\frac{13}{16}-4.89$	$4.88\frac{1}{8}-88\frac{13}{16}$
Paris - -	Fr. to £	$25.22\frac{1}{2}$	124.00–124.05	123.95–124.05
Brussels -	Bel. to £	35.00	35.02–35.04	$35.02\frac{1}{2}-03\frac{1}{2}$
Milan -	Lire to £	92.46	92.05–92.14	92.03–92.09
Berne - -	Fr. to £	$25.22\frac{1}{2}$	$25.33\frac{1}{2}-34\frac{1}{2}$	$25.34\frac{1}{4}-34\frac{3}{4}$
Athens -	Dr. to £	$25.22\frac{1}{2}$	$368\frac{1}{4}-369\frac{1}{4}$	368–369
Helsingfors -	M. to £	193.23	$193\frac{1}{2}-193\frac{3}{4}$	$193\frac{1}{2}-193\frac{11}{16}$
Madrid -	Pts. to £	$25.22\frac{1}{2}$	28.75–28.81	28.72–28.78
Lisbon* -	Escu.	$53\frac{1}{4}$ d.	$2\frac{9}{32}-2\frac{11}{32}$ d.	$2\frac{9}{32}-2\frac{11}{32}$ d.
Amsterdam -	Fl. to £	12.107	$12.11\frac{7}{8}-12\frac{1}{2}$	$12.11\frac{7}{8}-12\frac{1}{2}$
Berlin -	M. to £	20.43	$20.43-20.44\frac{1}{4}$	$20.42\frac{3}{4}-43\frac{1}{2}$
Vienna -	Sch. to £	$34.58\frac{1}{2}$	34.61–34.65	34.60–34.65
Budapest -	Pen. to £	27.82	27.89–27.92	27.89–27.92
Prague -	Kr. to £	24.02	$164\frac{9}{16}-164\frac{3}{4}$	$164\frac{1}{2}-164\frac{11}{16}$
Warsaw -	Zloty to £	43.38	43.40–43.52	43.40–43.50
Riga - -	Lats to £	$25.22\frac{1}{2}$	25.15–25.30	25.15–25.25
Bucharest -	Lei to £	$25.22\frac{1}{2}$	794–797	794–797
Const'ple -	Pst. to £	110	960-975	955-970
Belgrade -	Din. to £	$25.22\frac{1}{2}$	$276\frac{3}{4}-277\frac{3}{4}$	277–278
Kovno -	Lit. to £	48.66	$48\frac{1}{2}-49\frac{1}{2}$	$48\frac{1}{2}-49\frac{1}{2}$
Sofia - -	Lev. to £	$25.22\frac{1}{2}$	672–677	672–677
Reval - -	E. Kr. to £	18.159	18.05–18.35	18.05–18.35
Oslo - -	Kr. to £	18.159	$18.31\frac{1}{2}-32\frac{1}{4}$	$18.31\frac{1}{4}-32\frac{1}{2}$
Stockholm -	Kr. to £	18.159	$18.17-18.17\frac{3}{4}$	$18.16\frac{1}{2}-17\frac{1}{2}$
Copenhagen	Kr. to £	18.159	18.20–18.21	$18.20-20\frac{1}{4}$
Alexandria -	Pst. to £	$97\frac{1}{2}$	$97\frac{7}{16}-97\frac{9}{16}$	$97\frac{7}{16}-97\frac{9}{16}$
Bombay -	Per rup.	18 d.	$1/5\frac{31}{32}-1/6$	$1/5\frac{31}{32}-1/6$
Calcutta -	Per rup.	18 d.	$1/5\frac{31}{32}-1/6$	$1/5\frac{31}{32}-1/6$
Madras -	Per rup.	18 d.	$1/5\frac{31}{32}-1/6$	$1/5\frac{31}{32}-1/6$
Hongkong -	Per dol.	—	$2/0\frac{1}{8}-2/0\frac{11}{16}$	$2/0\frac{1}{8}-2/0\frac{3}{4}$
Kobe - -	Per yen	24.58 d.	$1/11\frac{1}{32}-11\frac{3}{32}$	$1/11\frac{1}{16}-11\frac{3}{32}$
Shanghai -	Per tael	—	$2/6\frac{3}{4}-2/7\frac{5}{8}$	$2/6\frac{3}{4}-2/7\frac{1}{2}$
Singapore -	Per dol.	2/4	$2/3\frac{31}{32}-4\frac{3}{32}$	$2.3\frac{31}{32}-4\frac{5}{32}$
Batavia -	Fl. to £	12.107	$12.11\frac{7}{8}-12\frac{5}{8}$	$12.11\frac{7}{8}-12\frac{5}{8}$
Manila -	Per dol.	24.066 d.	$2/0\frac{5}{16}$	$2/0\frac{5}{16}$
Rio de Jan.*	Per mil.	27 d.	$5\frac{29}{32}-5\frac{15}{16}$ d.	$5\frac{29}{32}-5\frac{15}{16}$ d.
B. Aires* -	Per dol.	47.577 d.	$47\frac{7}{8}-47\frac{15}{16}$ d.	Holiday
Valparaiso†	\$ to £	40	39.38	39.39
M'video* -	Per dol.	51 d.	$50\frac{3}{4}-51\frac{1}{4}$ d.	Holiday
Lima† -	£E to £P	Par	$23\frac{1}{4}$% prem.	Holiday
Mexico -	Per dol.	24.59 d.	23–25 d.	23–25 d.

* Telegraphic transfers.

These tables are more eloquent than words. They indicate the havoc wrought by the Great War. On the 1st July, 1914, according to Table I. the French franc stood at 25 francs 15-16 centimes to the pound. On the 1st July, 1919, the franc stood at 29 francs 52 centimes to the pound, and on the 24th February, 1928, the franc stood at 124 francs to the pound, the par of exchange being 25 francs 22½ centimes to the pound. In the intervening years it was subject to violent fluctuations and fell far below the present day figure. The old German mark, which stood at 20 marks 50¼ pfennings to the pound on the 1st July, 1914, about a month before the war, ultimately became valueless, the par of exchange being 20 marks to the English equivalent value of 19s. 7d. These two coin emblems of their respective countries' wealth and greatness in the year of grace 1914, what do they represent to-day? The franc one-fifth of its former value, and the old mark practically valueless. The difference is one measure of the losses and the misery entailed by the war.

To-day foreign trade, although to an ever-lessening extent, has to be carried on with this question of fluctuations in exchange ever before the mind of the trader, and a violent fluctuation in the exchange rate may turn an apparent profit into a loss. Yet many traders and other people who ought to know better often said that it was a good thing for bankers and financiers to restore the gold standard, but detrimental to trade. On the contrary, stability of exchange is an essential foundation for any growing

and expanding foreign trade to develop and prosper upon, whereas violent fluctuations enable skilful bankers and dealers in exchange to make huge profits and commissions undreamt of in ordinary times. It says a great deal for the banking and financial authorities that in many cases they have taken the long view and realised that these deranged exchanges were bad for trade, and while temporarily profitable to them would mean, if prolonged, loss and disaster to all concerned.

Some people say how absurd it all is that our trade and commerce should be affected and to some extent regulated by the fact of whether so many ounces of gold are produced and added to the world's stock of gold. Why is this so important and what does it do to promote trade and commerce and form the basis of our common civilisation? In the next chapter I shall attempt to answer that question.

II

THE GOLD STANDARD

THE Gold Standard means the equivalence between £1 and 123¼ grains of standard gold. The Mint price for gold bullion is £3 17s. 10½d. per ounce of standard gold. The currency is depreciated when the Market price exceeds the Mint price or, in other words, more currency is required to pay for an ounce of standard gold than the Mint price. When depreciation takes place, owing to redundancy, the exchange falls and it becomes profitable to export gold. To stop an excessive export of gold the Bank of England puts up its rate of discount, which tends to reduce prices of commodities, curtail imports and turn the exchanges in our favour, thus checking the export of gold.

The effect of the gold standard on British trade is to help to regulate it, so that exports and imports may go forward together. It is like the steam valve on a steam engine which regulates the pressure but not the capacity of the engine. When the gold standard and a free market in gold have been established in all countries, the parity of exchange thus secured offers a basis for the expansion and development of trade and commerce to the utmost extent.

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If owing to a failure of harvest or other causes there follows a contraction of trade, the gold standard enables the necessary adjustment of trade and exchange operations to be effected with a minimum of disturbance. The gold standard and the exchanges based upon it are like a weather-glass which indicates the approach of fair or stormy weather.

It is evident that if there should be a new goldfield discovered or a sudden increase in the production of gold the metal would tend to fall in value, and a greater amount would have been necessary to be forthcoming for exchange for a given quantity of commodities. In other words prices would rise, because more gold would be necessary to purchase a given quantity of commodities than formerly was the case. On the other hand prices would tend to fall if the production of gold showed a considerable reduction. Some people get alarmed and write as if there was likely to be a shortage of gold. A gold famine, they say, will demonstrate that the gold standard is obsolete and out of date. They are needlessly alarmed. Even if there was only enough gold to fill a pint pot, we could still retain the gold standard although the adjustment of values and prices would, of course, be tremendous. All history goes to show that the production of gold has on the whole been fairly steady, and has kept pace with the world's requirements. Of course, there are other contributing causes which affect prices, such as improved methods of production, transport and the simple cause of supply and demand. There is also

a tendency towards equalisation and stability in these matters. For example, as a result of the restoration of the gold standard and a cessation of inflation prices have shown a tendency to fall. This has been most pronounced in the price of coal and agricultural produce, but it applies to commodities generally. The average index numbers of wholesale prices in countries on a gold basis (pre-war—100) were: January 1925, 160; January 1926, 149; and January 1927, 142. Coal enters largely into the cost of gold mining, and as the costs of gold mining decline more gold will probably be produced and help to bring about stability. It is difficult to prophesy correctly as to the future of prices, but I think we are moving towards stability with a slightly downward curve in prices for some years to come. The gold standard has stood the test of time. It is by no means perfect, but so far no other system for measuring values and regulating trade in the form of a managed paper currency or by means of index numbers approaches the gold standard in its simplicity or in its automatic operation. The chaos and disorganisation in industry which have prevailed throughout the world during the last ten years are not due to the gold standard, but in large measure to our departure from it. The coal-mining industry was for a time benefited by a depreciated exchange which was equivalent to a subsidy of 2s. per ton to the export trade. When this was withdrawn by the restoration of the gold standard and the exchange returning to parity the export trade in coal was

adversely affected along with other export trades. Owing to this and other causes our export trade in coal fell off by 20,000,000 tons per annum, but no one would seriously suggest that we should maintain a depreciated exchange and jeopardise our whole trade and banking system in the belief that we could permanently benefit the coal-mining industry. What was a temporary set-back for the coal-mining industry was a godsend to Lancashire in enabling the cotton importer to purchase his raw cotton at the lowest possible price with a pound which is now worth \$4.86⅔ cents as compared with \$3.50 cents in former years. If I can obtain four dollars and eighty-six cents worth of cotton in exchange for my pound I am obviously in favour of a system which maintains that exchange rather than one which will only give me three dollars and fifty cents worth of cotton for the same nominal pound. Of course, the gold standard does not guarantee that, but we know from experience that when it exists there is stability of exchange compared to these violent fluctuations in exchange which exist without it.

In the case of this country and also that of Belgium foreign credits formed a part of the plan for the restoration of the gold standard. In the British case this was provided for under the terms of the Gold Standard Act. While the knowledge that these credits had been arranged may have given some measure of confidence to those who were apprehensive as to the success of the steps taken, they were regarded by other people as an indication of weakness

and lack of confidence on the part of the Government which had announced its intention to restore the gold standard, or to effect stabilisation at a fixed rate of exchange. It was quite unnecessary for a solvent nation like Great Britain to arrange for foreign credits which might never be used, and in the case of this country were not so used for the purpose of pegging the exchange. But apart from the foregoing, in the event of the exchange falling, it is unwise to attempt to peg or support it by borrowing abroad. The natural corrective for a falling exchange is through an increase in exports which a depreciated exchange tends to stimulate.

A statement appeared in the British Press that the Government were using these credits for this purpose. I denounced such action and was authoritatively informed by the Treasury that these credits had not been so used and at a later date the arrangement was terminated. By pegging the exchange a legitimate advantage is withdrawn from, say, the British steelmaker, who as a result of a fall in the exchange is enabled to sell his product abroad to better advantage. The natural stimulus thus given to British exports tends to correct the adverse exchange and equilibrium is once more re-established. Many people having observed this, point to the advantage which they imagine belongs to a country with a depreciated exchange. It is true that so long as a country has something to sell it is an advantage to that country to have a depreciated currency and exchange. But no country can permanently live by exports; it

must also import, and what is an advantage to the exporter inflicts a penalty upon the importer. No country can expect to prosper permanently which possesses a depreciated currency and exchange. There is no short cut to prosperity, and all restrictions and artificial aids are in the long run detrimental to the prosperity of trade. It may be asked in what way does a fall in the exchange act as stimulus to exports. One very substantial reason is that it enables the foreign importer to purchase his draft on this country at a low price, and that naturally encourages him to make purchases of goods from this country.

For the same reason it acts as a penalty to the British importer, as the foreign exporter is unable to sell his draft or bill of exchange on this country at a favourable price, and consequently the price of the commodity he wishes to sell tends to rise in price. All of which goes to show that stability of exchange is the best foundation for an expanding trade and this can only be secured through the agency of a sound currency. To seek for stability of price and to endeavour to manipulate the currency by some system of management is to confuse the issue and to promote chaos. Currency is like the equipment of a railway. It is an instrument to be used for the purpose of facilitating the transfer of goods and commodities. An increase in the amount of the currency does not automatically increase the amount of the commodities. But an increase in the amount of the commodities produced, and for which there is a

demand, will probably call for an increase in the amount of currency required to transfer these commodities from one market to another. An increase in the number of railway trucks does not increase the actual goods which are produced, but should the goods require to be transferred from one part of the country to another, then it is essential that there should be adequate equipment to effect such a movement. So it is with a currency system. There must be elasticity, and provision for expansion and contraction, based upon convertibility into gold on demand. This is the foundation of a sound currency.

Professor Gustav Cassel, the Swedish economist, is afraid that we shall probably require to face a scarcity of gold in the near future. He estimates the world's annual requirements of new gold in 1940 will be close upon 150 millions sterling, and he fears that in all probability it will not be possible to supply even one-half of that quota. He therefore anticipates a continuous fall in the price level. I have already stated that I believe the fall in the price level which has already taken place will make itself felt in the production of gold, and if there is not an increase in production of gold, I believe the decline will be arrested. By 1940 France, I trust, will have effected legal stabilisation, Italy having already done so: and with the improved credit that will result from these operations, and the general movement to work with smaller gold reserves, make it impossible I think to agree with the learned gentleman in his

gloomy forecast. According to Helfferich[1] the maximum production of gold was recorded in 1915 at 22.7 million fine ounces. The minimum was reached in 1922 when (partly in consequence of the strike of the White miners in the Rand), the output dropped to 15.45 million fine ounces. Since that time he points out the tendency has been reversed: the output for 1923 was 17.790 million fine ounces, and for 1924, 18.826 million fine ounces. For details, see Table IV. as given by the Director of the United States Mint.

Africa is still the largest producer of gold. The total production for that country in 1923 amounts to 10.156 millions of fine ounces, and to 10.605 millions in 1924. The chaos and confusion which have existed both at home and abroad during the last ten years have not been due to a scarcity of gold, but to a superabundance of paper money. The evil became acute in this country towards the end of 1919, when the financial position assumed a very grave aspect. I determined to act and called a meeting of bankers and traders in the City of London in December of that year. As a result of that meeting the Sound Currency Association was formed, with Mr. F. C. Goodall, the Editor of *The British Trade Review*, as the honorary secretary, and I became Chairman of the Executive Committee.

Viscount D'Abernon, who subsequently became British Ambassador to Germany, was elected President of the Association, and he was succeeded by

[1] *Money*, Helfferich, vol. ii. p. 647.

TABLE IV.

World Production of Gold 1923 and 1924.

(From the *Mint Report*, *U.S.A.*, *for* 1925.)

Country.	Calendar Year 1923.			Calendar Year 1924.		
	Kilos, fine.	Ounces, fine.	Value.	Kilos, fine.	Ounces, fine.	Value.
			$			$
Germany	200	6,430	132,920	200	6,430	132,920
England	—	—	—	—	—	—
France	527	16,943	350,243	616	19,804	409,385
Italy	38	1,221	25,240	540	17,361	358,884
Austria	23	739	15,276	61	1,961	40,537
Russia	7,797	250,673	5,181,870	17,850	573,877	11,863,088
Belgium	—	—	—	—	—	—
Bulgaria	—	—	—	—	—	—
Czechoslovakia	104	3,344	69,126	104	3,344	69,126
Denmark	—	—	—	—	—	—
Finland	—	—	—	—	—	—
Hungary	—	—	—	—	—	—
Yugoslavia	191	6,140	126,925	243	7,812	161,488
Lithuania	—	—	—	—	—	—
Netherlands	—	—	—	—	—	—
Norway	—	—	—	—	—	—
Poland	—	—	—	—	—	—
Portugal	—	—	—	—	—	—
Roumania	1,500	48,225	996,899	1,311	42,149	871,297
Spain	28	904	18,692	30	967	20,000
Sweden	—	—	—	—	—	—
Switzerland	—	—	—	—	—	—
Rest	58	1,864	38,532	41	1,318	27,245
Europe	10,466	336,483	6,955,723	20,996	675,023	13,953,970
U.S.A.	75,474	2,426,495	50,160,103	76,091	2,446,338	50,570,294
Canada	38,059	1,223,601	25,294,078	47,446	1,525,380	31,532,403
Mexico	24,313	781,663	16,158,408	24,797	797,223	16,480,062
Central America and West Indies	3,009	96,750	2,000,000	2,708	87,075	1,800,000
Argentine	120	3,870	80,000	120	3,870	80,000
Brazil	4,500	144,675	2 990,697	4,500	144,675	2,990,697
Colombia	8,577	275,738	5,700,000	8,276	266,063	5,500,000
British Guiana	254	8,170	168,900	197	6,337	131,000
Peru	3,744	120,372	2,488,310	3,744	120,372	2,488,310
Uruguay	—	11	227	—	12	248
Venezuela	540	17,361	358,883	540	17,361	358,883
Chile	2,003	64,397	1,331,208	2,107	67,725	1,400,000
Ecuador	1,320	42,456	877,646	1,204	38,700	800,000
Rest of America	1,797	57,762	1,194,046	2,327	74,812	1,546,501
America	163,710	5,263,321	108,802,506	174,057	5,595,943	115,678,398
Transvaal, Cape Colony, and Natal	284,575	9,149,073	189,128,124	297,826	9,575,101	197,934,904
Rest of Africa	31,335	1,007,449	20,825,819	32,042	1,030,167	21 ,295,441
Africa	315,910	10,156,522	209,953,943	329,868	10,605,268	219,230,345
Australia and New Zealand	27,660	889,256	18,382,552	25,420	817,264	16,894,342
China	2,784	89,500	1,850,129	3,337	107,300	2,218,087
Japan	7,691	247,276	5,111,647	7,691	247,276	5,111,647
British India	13,136	422,307	8,729,858	12,328	396,349	8,193,259
Dutch East Indies	3,594	115,547	2,388,568	3,869	124,388	2,571,327
Rest of Asia	8,409	270,385	5,589,353	8,003	257,275	5,318,352
Asia	35,614	1,145,015	23,669,555	35,228	1,132,588	23,412,672
World Total	553,360	17,790,597	367,764,279	585,569	18,826,086	389,169,727

Earl Beauchamp. The Executive Committee was composed of some of the most eminent and distinguished bankers, traders, and economists throughout the country. The Association set to work there and then to counteract the action of the Treasury, the object being to persuade the Treasury to contract gradually the issue of Treasury notes, so that they should once again be equal in value to the gold which they represented. Memoranda on the subject were forwarded to successive Chancellors of the Exchequer and every effort made to educate public opinion. The following Memorandum was the first on the subject, which was forwarded to Mr. (now Sir Austen) Chamberlain, the then Chancellor of the Exchequer.

SOUND CURRENCY ASSOCIATION

Reasoned Memorandum of the Views of the Executive Committee of the Sound Currency Association to be forwarded to the Chancellor of the Exchequer.

1. Whereas it is clear that the continuous rise in the prices of commodities and the consequent demand for ever-increasing wages and salaries cannot continue indefinitely without imperilling the future of this country, the Executive Committee of the Sound Currency Association begs to submit herewith certain views upon this very serious situation and to offer some suggestions for its amelioration.

2. The re-establishment of sound currency is the principal aim and object of this Association, but the Committee recognises that this is dependent upon a sound financial policy. The Committee desires to emphasise the supreme necessity for bringing the National Expenditure within the

National Income and believes that this can best be achieved by reducing the Expenditure rather than by increasing taxation.

3. The Committee is of opinion that to the continuous rise in prices, and to the fall in the exchange with countries maintaining a gold standard, the depreciation of the currency has been a contributory cause of great weight. There are, no doubt, other factors, but this cause still is a permanent hindrance to that reduction in the cost of living which is necessary if industrial peace and stability are to prevail. It is unquestionable that the currency has depreciated, but if any doubt existed the Committee would respectfully remind the Chancellor of the Exchequer of the test applied by Ricardo when confirming the famous Bullion Committee's report issued in 1810, *i.e.* 'That the price of gold bullion can never exceed the Mint price unless the currency in which it is paid is depreciated below the value of gold.' As the Bullion Committee's Report states: 'An ounce of standard Gold Bullion will not fetch more in our market than £3 17s. 10½d. (the Mint price), unless £3 17s. 10½d. in our actual currency is equivalent to less than an ounce of gold.' This last being the case is the proof of the depreciation of the currency which exists.

4. The immediate concern of the Committee is that the Government should abstain from any further watering or depreciating of the currency by an addition to the issue of Treasury Currency Notes, and should proceed with the gradual contraction of the issue until the par in exchange with gold standard countries has been re-established. Paper currency is no exception to the general rule that a diminution of supply raises values. The prohibition of the exportation and melting of gold coin can then be removed, and the amount of the issue of Currency Notes be left to the automatic regulation supplied by their convertibility.

5. The Committee is of opinion that this country should aim at the early restoration of the old equivalence between £1 and 123¼ grains of standard gold. Such restoration

would tend to a moderate reduction of prices and at once stabilise at the old rates the exchanges with the United States and other countries which have maintained a gold standard. It would, further, in all probability, encourage countries with still more depreciated currencies to take the necessary steps to stabilise them in relation to gold, and so cause a gradual return of steadiness to international trade, and a diminution of unrest.

6. It may be argued that the rise in the value of money and the fall in the price of wholesale commodities which would follow stringent currency reduction would check the development of trade and commerce. The Committee, however, does not advocate measures likely to cause violent dislocation, but seeks to achieve stability in the general level of prices. It believes that the increase in production and the development of trade and commerce which will follow from stability and consequent industrial peace will stimulate trade to a vast extent.

7. It is sometimes stated that the Government owes so much money payable on demand, or on particular early dates, that it dare not abandon the power of printing new money for fear of actual inability to meet its engagements. To this the answer is that an energetic demand for drastic economy forms a part of the Committee's programme. Extravagant expenditure on non-productive Services throughout the world having been the main cause of recourse to the printing press and the depreciating of the currency, it follows that the position will only be safe when the prime cause of the evil has been removed.

8. The Committee notices the various proposals for international loans and ventures to lay down the following propositions :

(*a*) That no loan is desirable unless the currency position between the contracting parties has been previously reformed and stabilised.

(*b*) That no loan is desirable unless ample guarantees for future economy have been obtained together with the establishment of stringent safeguards that the money lent will be applied to economic reconstruction.

9. In conclusion, the main points to which the Committee desires to direct your consideration are the restoration of the pound sterling to its par value, and the supreme necessity of national economy as an indispensable condition of a stable and well-ordered currency. The Committee is of opinion that prompt action on the part of this country on the lines indicated will most likely lead, through the League of Nations, to similar reforms being carried out by the other countries of the world.

The following Members of the Executive Committee have signed the Memorandum:

THE RIGHT HON. LORD D'ABERNON, G.C.M.G., K.C.M.G., *President*.

THE RIGHT HON. THE EARL OF BEAUCHAMP, K.G., P.C., K.C.M.G., *Vice-President*.

THE RIGHT HON. LORD BUCKMASTER, P.C., *Vice-President*.

MR. D. M. MASON, *Chairman of the Executive Committee*.

THE RIGHT HON. LORD FARRER.

THE RIGHT HON. SIR CHARLES H. E. HOBHOUSE, BT., P.C.

SIR DANIEL M. STEVENSON, BART.

SIR GEORGE PAISH.

MR. J. B. BRAITHWAITE.

MR. CHARLES COMINS.

MR. W. FREKE EVANS.

MR. FRANCIS W. HIRST.

MR. W. F. SPALDING, *Certificated Associate of the Institute of Bankers*.

MR. ERNEST SYKES, *Secretary of the Institute of Bankers*.

MR. JOHN M. MASON, *Hon. Treasurer*.

MR. F. C. GOODALL, *Hon. Secretary*.

July 14, 1920.

115 CANNON STREET,
LONDON, E.C.

These efforts were successful, and on April 28, 1925, the British Government announced its intention to restore the gold standard.

What is or what ought to be the object of the authorities who control or rather attempt to regulate Monetary Policy, for no single authority can control it? Surely it is to seek for and to maintain stability of exchange. To achieve this it is essential that there should be a stable standard of values—a stable currency.

What then constitutes good money—stable money? It is surely money which will retain its exchangeable value at approximately the same figure over a given period of time. To enable the money of a country to retain this quality in relation to commodities it must remain in quantity approximately about the same amount from year to year, but subject also to expand and contract with the needs of trade and commerce in that country. When most countries trading with one another have adopted the gold standard the prices of various commodities, after making allowance for local conditions, will tend to remain on the same level in these various countries, and it is this common denominator which will tend to bring this about. Money which is linked with gold will prove to be good money in that it will be stable in its relation to commodities, and will retain its exchangeable value at about the same figure in any country in which it circulates. As a result of the continuous issue of currency notes the currency of this country became depreciated. That could be

proved by applying the test applied by Ricardo when confirming the famous Bullion Committee's report issued in 1810, *i.e.* 'That the price of gold bullion can never exceed the Mint price unless the currency in which it is paid is depreciated below the value of gold.' As the Bullion Committee's report stated, 'An ounce of standard Gold Bullion will not fetch more in our market than £3 17s. 10½d. (the Mint price) unless £3 17s. 10½d. in our actual currency is equivalent to less than an ounce of gold.' This last having been the case was the proof of the depreciation of the currency which existed. Our currency is now good money because this depreciation has disappeared. Ricardo has defined what a perfect currency should be, namely, 'A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent.' He states further that 'experience, however, shows that neither a State nor a bank ever have the unrestricted power of issuing paper money without abusing that power. In all States, therefore, the issue of paper money ought to be under some check and control and none seems so proper for that purpose as that of subjecting the issuers of paper to the obligation of paying their notes either in gold coin or bullion.' There are some critics who advocate the adoption of a bimetallic system in view of the so-called scarcity of gold. I have endeavoured to show that there are no serious grounds for anticipating a real scarcity of the premier metal, but apart from that the

bimetallic system has been demonstrated to be unsound. It is the one theory in currency systems which Shaw states in his *History of Currency* has been found to be impracticable in practice. It is a contradiction in terms. A standard indicates a point or basic foundation from which all other things radiate and take up their several places in the world of values. One metal will become the standard of value to the other, and unless it is possible, which it is not, so to regulate and maintain the proportion which the production of one metal bears towards the other and to the other commodities, the system will break down and will prove unworkable as a standard of values. The theory has a curious fascination for some minds and has been intruded upon the most solemn occasions by those who come under its spell. It is related that during a funeral service in Denver, Colorado, when the free silver agitation was at its height there was a pause when the clergyman invited anyone present to say something about the deceased; no one responded. Suddenly a tall lanky gentleman at the back of the hall rose and said as no one had anything to say about the deceased, he might offer a few observations on the free coinage of silver. No doubt the fact that Colorado was a great centre for silver mining helped to make bimetallism and the free coinage of silver popular in that part of the country. In fact, the silver interests and inflationists of America dominated the situation in that country for many years, and as a result of their efforts various measures were passed through Congress and resulted

in great economic confusion and distress being inflicted upon that country. The battle for sound money was long-drawn-out, and Democrats and Republicans were equally to blame in their promotion of unsound legislation. The credit of the United States Government was in doubt, and only through the agency and support of the most powerful financial houses of Europe and America was the American Government enabled to float its loans and carry on the business of government. Eventually the Sound Money Party triumphed in America, and to-day the United States possess the largest share of the gold reserve of the world. It has been stated that this vast store of gold will prove an embarrassment to America and a menace to the development of trade and commerce with the impoverished countries of Europe. On the contrary it will prove a source of strength, and for many years to come will form the basis for the granting of large loans and credits to Europe, which will prove beneficial to all concerned. At the time referred to it was difficult in London to get an advance upon the security of United States Government Bonds. Doubts were expressed as to the ability of the Government to maintain specie payments and as to whether the Government was bound to pay in gold coin or in some other form of currency. The gold reserve in the American Treasury had sunk to a low ebb and looked like disappearing altogether. A supreme effort was then made. An International loan was successfully floated in London and New

York. This brought about a temporary relief. The exchange became favourable to New York and with the subsequent repeal of the Sherman Silver Act, which was the principal cause of the redundant currency, a recovery was finally made. No more eloquent example of the necessity for maintaining a sound system of currency is to be found than in the experiences of America. All history goes to prove a sound currency to be one of the corner-stones of a nation's happiness and prosperity, and as a result of peace and industry the ability of Europe to draw gold from America will increase and in due time a part of this vast hoard will become distributed. Gold, like everything else, goes where it is most wanted, and the policy to aim at is to get rid of restrictions and to promote a free market in the metal wherever possible. The gold standard is not a device to furnish wealth for the rich and to grind the face of the poor, but an invention of mankind which guarantees to everyone, so far as human ingenuity can go, that the money he uses will retain its value and remain stable during his lifetime. That is worth something. The gold standard does not prevent over-trading and bad speculation. It does not guarantee good trade and employment, nor a plentiful supply of the good things of this earth. Harvests and the resources of the world are quite independent of the gold standard. It is merely a cog in the wheel of our common civilisation, but a very important part of the machinery, and to the breakdown of this part of the machinery may be traced the greater

part of the misery and losses of the past ten years.

The principal advantage of the gold standard as opposed to any form of managed currency consists in its automatic character. It functions independently of any government and there is nothing secret about its operation.

Adam Smith pointed out that when the power of issuing inconvertible paper money had been handed over to any body of men constituting a government, it had invariably been abused. No doubt central banks can affect and do affect money rates and the supply of credit, but in the main where there is a free market in gold and convertibility the supply of credit will be governed by the trade and speculation which is being carried on. When that is sound, and exports and imports are moving forward together, the gold standard will function automatically, and a comparatively small amount of gold will be sufficient to work the exchanges.

It might be said of the gold standard as was said of Mary Queen of Scots in the beautiful tragedy of Schiller, 'I have been much hated, but I have been much beloved.' Merchants and others in possession of large stocks, and having something to sell or export, hated the idea of the restoration of the gold standard as likely to bring down prices and withdraw the advantage in exporting of a depreciated exchange. These advantages were temporary. When stocks became exhausted, and purchases of imports of raw material required to be made by manufacturers

and others, an increasing number of people acclaimed the restoration and their devotion to a stable standard of values. It is hard on the coal exporter, and the terrible state of affairs in some of the coalfields bears witness to the falling off in the export trade and consequent depression ; but a recovery will come, and when it does it will be based upon a solid foundation and therefore more likely to endure. Meanwhile every possible help should be given to the distressed districts.

The industry should be overhauled from top to bottom, economies introduced, and with proper organisation and effective management, I have no doubt prosperity will return once again to this important trade.

III

THE DAWES SCHEME

THE Dawes Scheme may be said to have originated in the proposal to hold an International Monetary Conference. This proposal was made by the Sound Currency Association in 1921; but after many deliberations the question of holding such a conference was adjourned to a future date. The following correspondence with the late President Harding is of interest as another proof of the keen desire of the United States of America to help Europe and to co-operate with continental Governments.

SOUND CURRENCY ASSOCIATION

President : THE EARL BEAUCHAMP, K.G.
Chairman : MR. D. M. MASON.
Hon. Treasurer : MR. JOHN M. MASON.
Hon. Secretary : MR. F. C. GOODALL.

115 CANNON STREET,
LONDON, E.C. 4, *18th August*, 1921.

SIR,

I have the honour to invite you to appoint three delegates to attend an International Monetary Conference to be held in London in the late autumn, for the purpose of drawing up a programme of the steps which may be deemed

advisable or necessary to be taken to rehabilitate the currencies of various countries and to re-establish the gold standard. It will be open to discuss at the Conference such subjects as International Loans, Credits, Debts, Reparations and other cognate matters.

Papers should be sent in to the Honorary Secretary on or before the 31st October, for consideration by the Executive Committee, who will select the papers to be read before the Conference.

It is expected that the Conference will take place about the end of November or the beginning of December, and further particulars will be forwarded to those interested in due course.

Should you decide to accept this invitation, please inform me at your earliest convenience.

I am, Sir,

Your obedient servant,

(Signed) D. M. MASON,

Chairman of the Executive Committee.

THE PRESIDENT OF THE UNITED STATES.

THE WHITE HOUSE.

WASHINGTON, *September* 3, 1921.

MY DEAR MR. MASON,

The President asks me to make acknowledgment of your very courteous favour of August eighteenth, in which you invite him to appoint three delegates to attend the International Monetary Conference, to be held in London in the late autumn, which conference has for its object the adoption of a program which may be carried out to rehabilitate the currencies of various countries and to establish the gold standard.

The President very greatly appreciates your thoughtful courtesy in tendering to him the distinction of naming three

delegates to attend the Monetary Conference, and he wishes his gratitude very cordially expressed.

It does not seem to him advisable, however, to assume the responsibility for naming three delegates when the invitation which you are good enough to send comes from a scientific organization without official connection. For the President to name delegates would give such representation the status of being spokesmen for the United States Government, and it would scarcely be a seemly thing for our government to have representation in a convention which is of decidedly a different character than an international governmental conference. This statement has no thought of disparaging in any way the conference which you have inaugurated. The President will be as pleased as any one can be if helpful results ensue. He is a strong believer in understanding and he believes these conferences are essential to understanding. He thinks, however, that because of the character of the conference your invitation should be more properly addressed to similar associations or organizations in the United States. Very likely this has been done and the President hopes that there have come replies which are expressive of the American wish to co-operate in all worthy undertakings.

Very sincerely,

(Signed) GEO. B. CHRISTIAN, Jr.,
Secretary to the President.

Mr. D. M. Mason, *Chairman*, *Sound Currency Association*, 115 *Cannon Street*, *London*, *E.C.* 4, *England.*

SOUND CURRENCY ASSOCIATION.

115 Cannon Street,
London, E.C. 4, 10*th October*, 1921.

Dear Sir,

I have to thank you for your kind and encouraging letter of September 3, but regret that you do not see your

way to naming three delegates for the International Monetary Conference which it is expected will take place in London about the 7th December.

You were right in assuming that invitations had been sent to similar organizations as ourselves in America, and I am glad to inform you that some Institutions such as the Guarantee Trust Company at this end have expressed a desire to co-operate, and individuals like Professor Irvine Fisher have promised to attend. Although, as you state, our Association is without official connection the Conference will therefore be free and unfettered in every way. Some Governments regard this as a distinct advantage as more likely to lead to an open discussion of our present evils. The Governments of France and Italy have promised to send representatives, and some of the smaller Powers have already appointed delegates. We are in touch with our own Government, and I think the proposed Conference may be regarded as semi-official. I shall be very sorry, therefore, if the United States Government was not represented, and I hope you will pardon me again returning to the subject and asking you to do us the honour of reconsidering your decision.

The discussion at the Conference I imagine will be carried on mainly by eminent bankers and financiers of world-wide reputation, but discussion without action on the part of the several Governments will be futile, and the example and presence of representatives of the United States Government will go a long way in inducing these Continental countries who at present are suffering from depreciated currencies and financial disorder, to reform their ways.

I have the honour to remain, Dear Sir,

Your obedient servant,

D. M. MASON,

Chairman of the Executive Committee.

THE PRESIDENT OF THE UNITED STATES.

EMBASSY OF THE UNITED STATES OF AMERICA.
LONDON, *November* 22, 1921.

SIR,

The Ambassador instructs me to inform you that he is in receipt of a communication from his Government, dated November 7, 1921, directing him to acknowledge the receipt, by the President of the United States, of your letter of October 10, 1921, regarding the official participation of the United States in an International Monetary Conference, proposed to take place in London about December 7.

The President desires Mr. Harvey to explain to you that the Government of the United States could not, conformably with diplomatic practice, appoint official delegates to the contemplated conference unless it were given, through a diplomatic channel, some intimation from the British Government of that Government's intention to participate officially and of its desire that the Government of the United States should do likewise, and that, should the activities of the Sound Currency Association assume an international governmental character, proposals for official action with respect to the London conference by the Government of the United States should properly come through the British Government to the British Embassy at Washington.

I am, Sir,
Your obedient servant,
(Signed) POST WHEELER,
Counselor of Embassy.

America has sometimes been portrayed as a grasping Shylock seeking everywhere for her pound of flesh. Nothing could be more contrary to the truth. She has been firm in regard to the collection of debts or more precisely the acknowledgement by her debtors of the debts due to her. In that attitude America has acted rightly, and in the various settle-

ments effected she has pursued a generous and statesmanlike course. All transactions depend on the principle of the sacredness of contract being firmly maintained; and without it no progress is possible. But in her diplomacy, and as a banker willing and able to lend, she has shown every desire to help those who deserved it. The cynics immediately retort that it has paid America to pursue this policy. I admit it and am glad of it. In this country I trust it is not expected of America or of any other country to treat us as paupers. Britain is willing and able to pay for such accommodation as may be furnished to her. Such accommodation in the form either of loans or credit is no doubt profitable to America. But who would dream of suggesting that America or American bankers should provide these loans or credits for nothing? If this country desires to resume its former position as a banker and lender of credit to other nations it can only do so by pursuing a policy of the most drastic economy. There are only two ways of increasing our fund of loanable capital, the one of which is to produce capital by prosperous trading and the other to increase the available supply through drastic economies in administration. The first is a slow process, and the second requires great skill and courage on the part of the Government. Both are not only possible, but also vitally necessary at the present time.

In the early part of 1922 an International Economic Conference was arranged to be held at Genoa, and it was suggested by the Italian authorities in London

that the Executive Committee of the Sound Currency Association should forward to the Chancellor of the Exchequer a Memorandum of the views of the Executive for the consideration of the delegates. This was done and the following is a copy of the document forwarded.

SOUND CURRENCY ASSOCIATION.

MEMORANDUM OF THE VIEWS OF THE EXECUTIVE COMMITTEE OF THE SOUND CURRENCY ASSOCIATION FOR THE CONSIDERATION OF DELEGATES TO THE INTERNATIONAL ECONOMIC CONFERENCE TO BE HELD AT GENOA. TO BE FORWARDED TO THE CHANCELLOR OF THE EXCHEQUER.

Whereas it is clear that the violent fluctuations in the rate of exchange between countries are among the principal causes of the present world-wide depression of trade, and that these fluctuations are in large measure due to the disorganised and depreciated condition of the currencies of various countries, the Committee begs to submit the following proposals for reform and relief :

1. The Committee recognises that there are many causes contributing to a disorganised exchange, among them being the balance of indebtedness between countries, the state of trade, excessive Government expenditure, and ill-regulated budgets. The Committee, therefore, would emphasise the advisability of (i) a decision on the funding or adjustment of inter-Ally War Debts and German Reparations ; (ii) drastic economy in administration with a view to reduction of taxation so as to reduce the cost of production and thereby stimulate trade ; (iii) the restoration of an equilibrium in the budgets of the various countries throughout the civilised world ; (iv) the removal of all artificial barriers to the free interchange of commodities between nations.

2. As a first step towards re-establishing the par of exchange between gold standard countries, the Committee advocates the gradual contraction of paper currency in all countries where there is an excess.

3. In view of the budget deficits in nearly all countries it is not easy to decide which is the best method of reducing the redundant currency, but one such method would be to convert the excess into funded debt. When par of exchange has been restored any prohibition on the export or melting of gold coin should be removed.

4. It is probable that some European countries will not be able to restore their paper currency to its pre-war parity, and a fresh parity may have to be established. It is, however, certain that a currency system based on gold *must* be adopted by all countries interested in the re-establishment of the general trade of Europe.

5. Efforts on the part of any country to rehabilitate its currency and to pursue financial reform on the lines suggested above, should receive all possible facilities in funding redundant paper issues, while loans and credits to all countries should be based only on their own practical recognition of the imperative need of reform.

6. Only through united effort on the part of all countries and Governments to pursue these long established and well tried principles of sound finance are trade and industry likely to revive. Financial machinery exists in London, New York, and elsewhere sufficient to provide the necessary credits where the security is sound.

7. While the above considerations are of general importance and interest, the special position of the United Kingdom deserves and has received the consideration of the Committee.

8. This country should aim at the early restoration of the old equivalence between the pound sterling and 123¼ grains of standard gold. Such restoration would tend to give

stability to prices and encourage countries with still more depreciated currencies to stabilise them in relation to gold and so cause a gradual return of steadiness in international trade.

9. The resumption of gold specie payments in this country would immediately have a beneficial effect on British national credit. An improvement in national credit which would enable this country to refund the national debt, would save the State many millions per annum in interest charges.

10. In conclusion, the Committee would respectfully suggest to countries with depreciated currencies the advisability of forming sound currency associations, and if desired, would be pleased to become affiliated with such associations.

Signed on behalf of the Executive Committee of the Sound Currency Association :

D. M. MASON, *Chairman.*
F. C. GOODALL, *Honorary Secretary.*

115 CANNON STREET,
LONDON, E.C., *February* 9, 1922.

The Conference did good in bringing the representatives of the various nations together, but produced at the time no tangible results. This was largely due to the suspicions aroused by the signing of the Treaty of Rapallo between Germany and Russia being suddenly made known in the middle of the Conference. Things got worse and the position appeared to be hopeless.

The state of affairs on the continent of Europe was most discouraging. There was a deadlock so far as obtaining reparations or any satisfaction from Germany was concerned. Our foreign trade with the

continent was languishing because of a declining demand for our manufactures, due to the impoverishment of our principal customers. The problem was how to remove this deadlock and to restore the purchasing power of our customers. With the mark declining daily foreign trade with Germany had almost entirely disappeared. In France the franc was going the same way as the mark for the same reason, namely, an over issue of paper money. Matters were not much better in Italy. The time for action had arrived.

On the 7th July, 1922, I wrote to the Editor of the *Westminster Gazette*, to suggest 'the appointment of a Financial Commission to be composed of representatives of all countries interested in international indebtedness, and reparations,' and there were published in *The Times* of the 17th and 24th July, letters of mine suggesting the appointment of such a Commission. 'This body,' I stated, 'would have powers to investigate and report to the governments concerned as to the best method for adjusting and settling the whole vexed question of international debts, reparations and loans which are inextricably bound up together. It would, of course, be open to any Power to refuse or accept such a report.' The question came up for discussion at meetings of the National Liberal Federation and I pressed the authorities in England and America to appoint such a Commission, being convinced that this was the only way to obtain reparations from Germany and to bring order out of the chaos which then existed. In

The Times of Dec. 30, 1922, nearly six months after my letters on the subject had appeared in the columns of *The Westminster Gazette* and *The Times*, I read with great satisfaction the report of a speech by Mr. Hughes, Secretary of State in the United States Government. In this speech Mr. Hughes suggested the advisability of appointing an International Financial Commission. I realised that the question had now entered the sphere of practical politics, and wrote to Mr. Bonar Law on the same date, pressing the suggestion upon the government of the day.

34 QUEEN'S GATE GARDENS, S.W. 7,
December 30, 1922.

DEAR MR. BONAR LAW,

To-day's *Times* publishes a report of a speech of Mr. Hughes, Secretary of State for the U.S.A. Government, which embodies a plan for an International Financial Commission for German Reparations. Some time ago I suggested this procedure in the press, and believe it would be welcomed in financial circles in this country, such as the Association of which I am Chairman, and of which I enclose a report. From communications which I have received from the President of the United States, and other Authorities, I am confident of the success which would attend the adoption of the suggestion, and I can only add that should you desire me to serve on the Commission my services are at your disposal.

Yours faithfully,
(Signed) D. M. MASON.

THE RT. HON. A. BONAR LAW, ETC. ETC. ETC.

Mr. Lloyd George, who was then in Spain, and later Mr. Asquith as he then was, supported the

D. M. MASON

suggestion of Mr. Hughes. Mr. Baldwin, having become Prime Minister, took action, and through Lord Curzon invitations were issued for the appointment of representatives on such a Commission. The Commission was duly formed and became known as the Dawes Commission in view of the fact that Mr. Dawes, who later became Vice-President of the United States Government, was its Chairman. France was rather suspicious at first, but eventually joined the Commission. An investigation was made and a plan was drawn up and embodied in a report which was eventually accepted and ratified by the various governments. This plan involved the floating of a loan of forty millions sterling for Germany, the bulk of which was supplied by the United States of America. The loan was duly raised, and ever since the ratification of the contract Germany has paid promptly the amounts due for reparations. A very testing time will come in 1928-29, when the annuity will amount to about £125,000,000.

Many critics contend that the transference of this huge sum to her creditors, apart altogether from its collection, will prove an impossible task for Germany. The recovery of Germany has been wonderful, and if economy is practised in her administration the collection of this amount is possible. But it may be necessary to open up the subject again and perhaps to modify the amount in view of the disturbance which may be entailed by the transferring of so large a sum. It is the balance of payments which moves the exchange either downward or upward.

Should America and this country continue to lend freely to Germany that will ease the situation and by helping to create a favourable exchange for Germany, make possible the transfers when they fall due. There is also the large investment of American and other foreign capital in German industry. There is, of course, the growth in her export trade. All these causes have their effect on the exchange. There is also the possibility of funding the annuities into marketable securities and numberless ways and means for overcoming all and almost every financial difficulty. I do not therefore anticipate a deadlock due to this cause. But there is the further question of whether it is just to extract this huge sum from a defeated enemy and to continue to exact it over a very long period. If by that time the various debt problems of the debtor nations have all been settled and ratified there may arise a question whether a conference should be held to discuss the whole subject of international debts and reparations with a view to cancelling one against another and reducing the figures all round to more reasonable proportions. The fact that countries have paid and are willing to pay their just debts should be weighed in the balance when such a settlement comes to be made. Debt paying is good finance and good politics. If Russia, for example, would recognise this principle an advance might be made towards resuming our former relations with that great country. No one expects Russia to repay in full the amounts she owes ; but no nation can expect to resume relations with other

civilised countries without admitting its debts. When this is done, the question of adjusting and funding the obligation is a comparatively easy matter and there need be no difficulty then for Russia in re-establishing her credit in the money markets of the world. The effect of such a re-establishment of her credit would be generally beneficial for other countries. The sacredness of maintaining contracts is, of course, the foundation of credit, and if and when this is recognised by Russia, and credit as a result is extended, the stimulus to trade should be enormous.

The struggle now going on in Russia is the issue, of course, between law and order and world revolution. The dream of the Russian revolutionist is being dissipated, and ordered government, which implies ordered finance, is gradually coming into its own. As Wilson wrote, 'Finance is not mere arithmetic. Finance is a great policy. Without sound finance there can be no sound government and without sound government there can be no sound finance.' An international Commission similar to the Dawes Commission might be appointed which would proceed to Russia in order to draw up a plan which would provide for the repayment of the external debt, and furnish the basis for the flotation of a loan. This loan would not be guaranteed by any Power or involve any liability to the taxpayers of any country, but under a carefully drawn-up scheme would be secured upon tangible assets and security which Russia unquestionably could provide. Russia wants

money and we want trade ; and this is one way of helping to provide both. The present condition of Russia is a menace to the peace of the world. That vast country, almost a continent in itself, is possessed of inexhaustible resources which only require capital and skilful enterprise to be made available for herself and for mankind. Here then is an opportunity to turn the misplaced energies of her extremists into fruitful and profitable channels. The peaceful development of Russia would be of immense benefit to France and Germany and all her neighbours, and a stimulus to British trade. While yielding to no one in admiration for the international work of a financial character which has been accomplished by the League of Nations, I consider that the advantage of working through an outside body with limited liability like the Dawes Commission is self-evident and great. For the liability would be limited and the United States of America would be included. For many years to come America and Great Britain will be the international bankers of the world. Both countries are willing lenders within limits. The means being available the only question to be solved is how adequate security may be provided.

Security depends on many things—peace, character of the people, honesty and integrity in carrying out public obligations and good government. The success of the Dawes Scheme so far as the flotation of the German loan was concerned marked the beginning of a recovery in world credit. It meant that Germany would have no difficulty in paying her

first annuities under the Dawes Scheme. It meant a stabilised mark and stability of exchange. It meant the return of German capital held abroad to the fatherland and improved credit in every direction.

As an immediate result of that operation the New York stock market, which had for many months been going steadily downwards, turned in an upward direction and with one or two set-backs has maintained its upward course ever since. It was as if some magician's wand had suddenly been waved across the scene. Before the eyes of the world there appeared the spectacle of the former enemies of Germany, the peoples of Great Britain, America, Belgium, France, Italy and in addition the peoples of Holland, Sweden, Switzerland and Germany herself vying with one another in their anxiety to lend money to the newly constituted German Government. 'Peace hath her victories no less renowned than war,' and here certainly was a resounding victory for peaceful finance. Men turned their eyes outwards, and America having accumulated a gold reserve of £900,000,000 rose in her strength and began to think how she could use her newly acquired wealth to her own advantage and for the benefit of mankind. The New York stock exchange, that delicate barometer of a nation's mood and temperament, at once responded to the change of sentiment. Most stockholders felt less inclined to sell and more inclined to buy. Were there not wants to be supplied if Europe was now to be reconstructed, and did not the far-seeing investor perceive

that such reconstruction would mean a great revival of trade and a prospect of increasing dividends? Other loans and credits followed in swift succession from America to Europe, with the result that the New York rate of exchange on London moved upwards, and many circles began to anticipate a return to parity and the possible restoration of the gold standard in this country.

In the early part of 1925 the question of the re-establishment of the gold standard came up for discussion before the Executive Committee of the Sound Currency Association and in accordance with a request from the Chancellor of the Exchequer for the views of the Executive of that body the following Memorandum was forwarded to the Chancellor.

SOUND CURRENCY ASSOCIATION.

MEMORANDUM OF THE VIEWS OF THE EXECUTIVE COMMITTEE OF THE SOUND CURRENCY ASSOCIATION TO BE FORWARDED TO THE CHANCELLOR OF THE EXCHEQUER.

1. In view of the fact that the Gold and Silver (Export Control, &c.) Act, 1920, continues in force until December 31, 1925, unless otherwise determined by Parliament, the Executive Committee expresses the hope that this measure will not be re-enacted, and that if circumstances permit it will be repealed before the date of expiration laid down in the Act.

2. The Committee is of opinion that a declaration by His Majesty's Government that it is not the intention of the Government to ask Parliament to renew this Act will be most beneficial to our national credit and to industry. It will not only encourage foreign capitalists to cease to withdraw their balances from this country, but to increase them; at the same time, such a declaration will, by attracting foreign loans

to be floated in the London money market, stimulate trade and commerce in every direction.

3. It is recognized that when the Gold and Silver (Export Control, &c.) Act, 1920, has been repealed or lapses, it will be necessary to provide for the control of the note issue. The Committee recommends that (except as regards existing private issues), the note issue should be entirely in the hands of the Issue Department of the Bank of England.

4. It has been suggested that some provision should be made for an increased demand for currency as a result of the expansion of trade and commerce, which it is expected will follow from the restoration of an effective gold standard. The Committee recommends that there should be a clause enabling the limit of the fiduciary issue to be exceeded, provided always that there is an adequate ratio of reserve in gold held against the notes which may be issued.

5. Some controversy has arisen as to the advisability of making the notes convertible only into gold bullion. While the Committee believes that the paper note issues are popular and economical and are likely to remain so, it is of opinion that the value of the notes can be best maintained by the provision that they are convertible into gold coin on demand. The Currency and Bank Notes Act, 1914, Section (3), Clause 1, gives the holder of a currency note the right to obtain on demand during office hours at the Bank of England payment for the note at its face value in gold coin, which is for the time being legal tender in the United Kingdom.

6. The reserve of gold held at present in this country is over £150,000,000—equal to about 37 per cent. of the combined note issues of the Treasury and the Bank of England. The Committee believes that this is a sufficient reserve, as a comparatively small amount of gold is required to work the exchanges of the country.

7. In the opinion of the Committee, such a declaration of His Majesty's Government as is here indicated would remove the

present uncertainty, and would tend to create the conditions which would enable an effective gold standard to be attained and maintained. The Committee is further of the opinion, that a great opportunity now presents itself to His Majesty's Government by taking such action to restore Great Britain once again to its position as the monetary centre of the world.

(Signed) D. M. MASON (*Chairman*).
F. C. GOODALL (*Hon. Secretary*).

86 Cannon Street,
London, E.C. 4, *April* 7, 1925.

The New York exchange on London was approaching parity largely as a result of the successful flotation of the loan of £40,000,000 to Germany. America was prepared to continue to lend to Europe. In this country monetary conditions were favourable. The British Government decided to act and to restore the gold standard, and on the 28th of April, 1925, Mr. Churchill made the announcement in his Budget speech. The main policy advocated by the Sound Currency Association had thus so far triumphed. There still remained the other large question in which the Sound Currency Association has steadily interested itself, viz.: the transfer of the control of the Treasury Note Issue to the Issue Department of the Bank of England, but that will be dealt with in a subsequent chapter.

The return to the gold standard wrought an amazing transformation. It illustrated to the whole world the enormous power of sound finance promoted and carried out by united mankind. Some controversy has arisen recently as to the possibility and desirability of imposing on the world or on

Europe, what is called a 'super currency.' We have such a super currency or world currency to-day based upon gold. The fact that the various nations adopt different units of value based upon gold is a detail of little importance. The principal thing is that the standard of values should be common to all. If that basis is accepted the adoption of this or that sort of token is a minor matter. As *Tate's Modern Cambist*[1] points out, 'If every country had coins of even weight and fineness the difficulties connected with the exchanges would be small, but we find there is a considerable difference so that it is necessary to ascertain the exact equivalent expressed in terms of the foreign coin.' When gold is the basis of the equivalence then it is no more or less than the truth that 'a world-currency or super currency' exists as the common currency of the world. It is, of course, the balance of payments which affects the exchange rate between countries which have adopted the gold standard and which eventually leads to an export or import of gold. The shipment of gold is avoided if possible, because of the cost of carriage, but at certain rates of exchange it becomes profitable to carry out a shipment. The transaction takes place when the currency of one country can purchase a given quantity of gold in that country at a price which will command a greater amount of commodities in another country. It is a matter of calculation to reduce the various currencies based upon gold to one common denominator, *i.e.* one ounce of fine gold.

[1] *Tate's Modern Cambist*, by H. T. Easton.

Gold like any other commodity will go where it is most valuable and can be exchanged for the greatest quantity of commodities.

A great deal has been said and written as to the difficulties involved in transferring the huge amounts due to the various creditor nations. The same thing was said at the beginning of the Great War. Many people contended that it would be impossible to finance the war and that owing to this cause alone the war was certain to be short. These prognostications proved to be wrong. It is true that owing to bad finance and economic pressure, the end came sooner than was expected. But the truth is that there are very few situations which cannot be financed and very few transferences that cannot be effected. The idea that it is merely a question of exports and imports is to refer vaguely to the question rather than to elucidate it. It is the balance of payments between countries, as I have already stated, which affects the exchange. One country, *e.g.* Germany, might owe a large sum of money to another country, and it might appear at the first glance that this payment could only be effected through a huge increase in the exports of the debtor country. But the debtor country for various purposes might borrow freely from its creditor, and effect on the exchange would then be the same as if a large increase had taken place in the exports of the debtor country. In other words the debtor country exports securities instead of goods and the effect on the exchange is the same as an export of goods.

MONETARY POLICY

1914–1928

BY

D. M. MASON

CHAIRMAN, EXECUTIVE COMMITTEE SOUND CURRENCY ASSOCIATION
ASSOCIATE INSTITUTE OF BANKERS
MEMBER OF PARLIAMENT, CITY OF COVENTRY, 1910-1918

LONDON: MARTIN HOPKINSON
& COMPANY LTD: 14 HENRIETTA
STREET, COVENT GARDEN, W.C. 1928

There is also a great advantage in funding or converting a short dated debt into a long term security and thus removing this possible menace to the exchange by the debt being presented for payment. It is to the interest of Germany to gain time to meet all pressing debts, to borrow only for that which is fruitful and reproductive, but nevertheless to do so freely provided she can offer good security. Her debtors then become part creditors and partners and directly interested in her welfare and prosperity. There is every reason to believe that America for many years to come will continue to lend freely to Europe. The effect of these loans on the exchange will be of a steadying character and, consequently, will be beneficial to trade. Great Britain also will resume her position as an International banker and lender, although there are some who by means of an embargo on the flotation of foreign loans would like to limit her activities in this direction. This is foolish, and only provides another example of ignorant people advising restriction and interference with the free action of economic forces which if left to themselves will correct and govern the situation. If there is a tendency to over-lend the failure of the flotation of the issue will supply the proper corrective. The idea that by these restrictions protection would be given to the national gold reserve is equally a delusion. If loanable capital is present and the security is sound, the capital will flow into the security offered without any ill effects to the gold reserve or to anything else.

IV

FRENCH FINANCE

A GREAT banking and trading community, such as Great Britain, is largely dependent upon the prosperity of its principal customers. Not only was France our gallant ally during the great war, but a prosperous and contented France—and the same is true of Germany—means stability and peace on the continent of Europe and increased purchasing power for all these countries. France has been suffering though in a milder degree from the same malady as Germany, namely, inflation or debasement of the currency. The difficulty has been to persuade her to adopt the same remedy. During 1925 I began to agitate in the press and through the responsible authorities for the appointment of a Financial Commission. Sir Daniel Stevenson of Glasgow was good enough to put forward this suggestion on my behalf to his friend, M. Herriot, the French Premier, for the consideration of M. Caillaux, who was then Minister of Finance. It was duly acknowledged by M. Herriot in a letter dated the 9th May, 1925. But it was not until the early part of 1926, when I paid a visit to the French capital, that any move was made. In February of that year through the courtesy of our

Ambassador, Lord Crewe, and the good offices of Mr. J. R. Cahill, the Commercial Counsellor of the Embassy, I had a number of interviews with leading French bankers and later with some of the authorities. I pressed the suggestion that a committee of experts should be appointed and was invited to submit a Memorandum on French Finance for the consideration of the French Government. The following correspondence took place with M. Berthelot of the French Foreign Office with reference to the Memorandum.

HOTEL CONTINENTAL,
PARIS, *February* 12, 1926.

TO HIS EXCELLENCY, MONSIEUR BERTHELOT, ETC. ETC.

SIR,

In accordance with your request, I have the honour to forward herewith a memorandum on French Finance, which I trust may be of interest and service. At the same time I beg to enclose a copy of the proceedings at the annual meeting of the Sound Currency Association, of which I have the honour to be chairman of the Executive Committee.

I am, Sir,
Your most obedient servant,
(Signed) D. M. MASON.

FRENCH FINANCE (No. 1).

The question of French Finance is one of International as well as National importance, first because of the friendly feelings and admiration which I believe all civilised countries have for France, secondly because of the advantages which will accrue to the world from a restoration of French finances, and lastly it appeals to Great Britain as a close friend of that great country.

It appears to me that the successful solution of the problem depends on its being treated as a whole. That is to state that whatever plan may be decided upon should provide for the settlement of (1) The balancing of the Budget, (2) The stabilisation of the franc, (3) Indebtedness both internal and external. To adjust these various matters may require a foreign loan, and this will require a carefully thought out scheme which will win the confidence and enhance French credit with the foreign investor. To achieve this, I believe that the appointment by France of a Financial Commission which would be prepared to invite the co-operation of British and American representatives would be desirable. It would be the business of this Commission to submit a report to the French Government, which that Government could either reject or accept as it thought fit.

I believe that if it was known that the French Government was agreeable to the above suggestion, confidence would gradually return, and French Credit would improve both at home and abroad. I believe the British and American Governments would immediately and heartily respond to any such action and pronouncement on the part of the French Government. The advantages which would accrue to France are self-evident. Take for example the stabilisation of the franc. It was estimated by the British Treasury that the saving on the interest payments of the British debt to America would amount to about £336,000,000 by restoring our exchange to par than by leaving it at the former discount. France has external charges to meet, and a large amount of floating debt and short-dated securities which she will desire to fund into long-dated securities. If her credit improves as a result of a return to the gold standard, this will enable her to fund her short-dated debt at a low rate of interest and save millions of francs to the French taxpayers.

During the past few days I have had an opportunity of meeting some of the leading bankers and public men of France. While some of them may differ as to whether the

time is yet ripe for taking the action I have here suggested, I believe I am right in stating that they believe some such action as I have suggested is or will become necessary, and when it is taken a great deal of loss and suffering will be avoided. Of course the adjustments which may be recommended in the report of the Financial Commission may lead to some distress and set back to trade and commerce in certain directions, but they will I believe be of a temporary character. In a short time they will be forgotten, and in a comparatively limited period of time I believe if France restores her finances, she may look forward to an unbounded prosperity and happiness among all her people.

HOTEL CONTINENTAL,
PARIS, *February* 12, 1926.

MINISTRY OF FOREIGN AFFAIRS,
PARIS, *February* 18, 1926.

SIR,

I read with great interest your Memorandum on French Finance which you kindly enclosed in your letter of the 12th February. Your suggested plan proves the feelings of great sympathy which you have always had towards France, and deserves therefore all our attention. However, as you have been advised by some of the French personalities to whom you communicated your plan, and as you have also been informed by the Assistant Director of Political Affairs of the Department, Monsieur Seydoux, the application of such a plan seemed premature ; the idea of an Experts Committee, purely French, responsible for studying a general plan of finance restoration has already been put forward, and it is possible that some day we may return to it.

Yours etc. etc.

BERTHELOT.

MONSIEUR D. M. MASON, *Chairman, Executive Committee Sound Currency Association, London.*

34 QUEEN'S GATE GARDENS,
LONDON, S.W. 7, *February* 24, 1926.

TO HIS EXCELLENCY MONSIEUR BERTHELOT, ETC. ETC. ETC.

SIR,

I thank you for your letter dated the 18th February, and note the contents of the same.

With your approval and unless I hear from you to the contrary I propose to send the Memorandum and correspondence to the Press. This I venture to think will be of service to your Government. It will help to educate public opinion, improve French credit, and prepare the way for any French Loan which may be floated later on.

I have the honour to be,
Your most obedient servant,
(Signed) D. M. MASON.

The Experts Committee was appointed in due course and was composed of the following bankers and financiers of France with M. Sergent as President.

Le Comité des Experts était composé de :

MM. SERGENT, ancien Sous-Secrétaire d'Etat au Ministère des Finances, ancien Sous-Gouverneur de la Banque de France, Président ;

DUCHEMIN, Président de la Confédération Générale de la Production Française ;

FOUGÈRE, Président de l'Association Nationale d'Expansion Economique ;

JEZE, Professeur à la Faculté de Droit de Paris ;

LEWANDOWSKI, Administrateur-Directeur du Comptoir National d'Escompte de Paris ;

MASSON, Directeur-général des Affaires Financières du Crédit Lyonnais ;

MOREAU, Directeur-général de la Banque de l'Algérie ;

Oudot, Directeur de la Banque de Paris et des Pays-Bas ;
De Peyerimhoff, Président du Comité Central des Houillères de France.
Phillippe, Associé de la Maison Lazard Frères et Cie ;
Picard, Sous-Gouverneur de la Banque de France ;
Rist, Professeur à la Faculté de Droit de Paris ;
Joseph Simon, Vice-Président de la Société Générale.

Le Directur ou le Directeur Adjoint du Mouvement Général des Fonds assistaient aux réunions avec voix consultative.

The announcement of the Government's decision to appoint an Experts Committee had an instantaneous effect in allaying the semi-panic which prevailed and in stimulating that return of confidence and improved credit which has since been maintained. The economic condition of France has been admirably described in the yearly reports of Mr. J. R. Cahill, the Commercial Counsellor of the Embassy.[1] The report for the year 1925-26 shows wonderful progress and strength. Mr. Cahill writes, ' A radical change has passed over the state of the public finances since the advent of the coalition government, the improvement of the sterling exchange rate from over 240 in July to under 140 in November is one important indication of the betterment of the general situation.'

The Experts Committee's report provided for the energetic reduction of State Expenditure, the restora-

[1] *Report on the Economic and Industrial Conditions of France* 1925-1926, by J. R. Cahill, Commercial Counsellor, His Majesty's Embassy, Paris.

tion of the independence of the Bank of France, the realisation within a brief period with the aid of the Bank of France of currency stabilisation. . . . The report further stated that 'This programme is based on the exact fulfilment by the State of its engagements and on the settlement of the inter-allied debts.' 'After the publication of the Report early in July 1926,' says Mr. Cahill, 'the government appeared to adopt its general conclusions, and one of its first measures was to authorize the Minister of Finance to negotiate for the settlement of the debt to Great Britain. An agreement subject to Parliamentary ratification was signed in London on July 12. The political situation was, however, very troubled: the situation of the Exchequer whose coffers were getting empty became critical and sterling exchange was sinking rapidly. The government fell. It was succeeded by another that endured a couple of days, and within whose existence the exchange fell actually to 248 francs. It was succceeded by the existing coalition government under Monsieur Poincaré, who at once took in hand with the fullest support of the bulk of the nation its declared main function—the restoration of the national finances.'

This was a great triumph for the Experts Commission, and it led, incidentally, to certain repayments of debt due to Great Britain, and to other advantages which flowed from a stable exchange.

The application of economy to administration and the cutting down of wasteful expenditure made their influence felt and led to a balanced Budget.

French securities began to improve in price. Credit improved and money became plentiful and the general rate of interest tended to fall, thus facilitating the conversion and funding of the floating debt.

In February 1927 I revisited Paris and had conversations with M. Masson of the Crédit Lyonnais, and M. Sergent, President of the Experts Committee, who presented me with a copy of their report as a memento of the conversations which had taken place. In these conversations I emphasized the advantages which would follow from an immediate stabilisation of the franc at or about the existing rate of exchange. I had also an interview with M. Bokanouski, Minister of Commerce, and at a later date submitted to M. Bokanouski the following Memorandum No. 2 on French Finance.

FRENCH FINANCE (No. 2).

Introduction.

In a former Memorandum on French Finance dated February 12, 1926, which I had the honour to submit to Monsieur Berthelot in accordance with his request, I ventured to suggest that the successful solution of the problem depended on its being treated as a whole. Whatever plan might be adopted should provide for the settlement of: (1) The balancing of the Budget. (2) The stabilisation of the franc. (3) Indebtedness both internal and external. To achieve these objects I expressed the opinion that the appointment by France of a Financial Commission would be desirable. This was done and I congratulate Monsieur Sergent and his colleagues on their excellent report.

Foreign Loans or Credits.

I ventured to state that a foreign loan or credits might be necessary to enable France to adjust these various matters, but in view of the wonderful recovery in the economic and financial position so admirably described in the Report of Monsieur J. R. Cahill, the Commercial Counsellor of His Majesty's Embassy, Paris, which recovery is almost entirely due to the wise and statesmanlike measures carried out by Monsieur Poincaré and his Government, I no longer think such credits are necessary or desirable for the purpose of the stabilisation of the franc.

Stabilisation of the Franc.

This brooks of no delay, and should be carried out as soon as possible for the following reasons: (1) Delay may mean further demands on the part of the rentier and creditor of France. (2) Stabilisation now means the removal of uncertainty, and will promote confidence, stability and improved credit. I do not believe it will now involve any crisis or disturbance to trade and commerce. On the contrary, should prices fall in some directions, that will benefit the rentier and the wage earner, and the removal of uncertainty will stimulate trade and commerce enormously. No political disturbance need be feared because of these beneficial results.

Compensation for Stabilisation of the Franc.

To compensate the rentier or creditor a supplementary income bond in the proportion of one to five or ten, might be issued to bear interest in say five years.

Ratification of Debt Agreements.

Should these be decided upon, and a foreign loan be desired, there would be no difficulty in France floating a loan either in London or New York on the most favourable terms.

Funding of the Floating Debt.

It might also be an advantage to borrow abroad for this purpose. Such borrowing would help to maintain the parity of the exchange.

The Gold Reserve.

A comparatively small amount of gold is necessary to work the exchanges and the Bank of France has an ample gold reserve for this purpose.

Conclusion.

I wish again to congratulate the French Government on the amazing recovery and sound economic position of France, to emphasise the supreme importance of immediate stabilisation of the franc at or about the present rate of exchange, and to offer my best wishes for the future happiness of that great country.

London, *February* 18, 1927.

In these interviews I gathered that it was the intention of the authorities to maintain the *de facto* stabilisation of the franc at or about the existing rate of exchange, but not to attempt the *de jure* stabilisation until after the French elections in May, 1928.

In February 1928 I again visited the French capital and through the good offices of our Ambassador, Lord Crewe, I was put in touch with the authorities of the Ministry of Finance. I ventured to criticise a recent speech of Monsieur Poincaré in which that statesman, after pointing out to the Chamber of Deputies, with justifiable pride, the remarkable recovery which had taken place in the financial position during his tenure of office, referred

to the considerable increase which had taken place in the note issue of the Bank of France for 1927. Monsieur Poincaré stated that such an increase was not inflation, as it had been used for the purchase of foreign currencies, and to build up the gold reserve. I took exception to that statement and warned the authorities that in the event of stabilisation taking place and the note issue proving to be redundant, the exchange would be unfavourable and gold would flow out of the country. The only way to maintain the currency at par was to contract the note issue so that the notes of the Bank of France should be equal in value to the gold which they represented.

Great Britain had had a similar experience after the Napoleonic Wars and the results were as I had stated. France had an ample gold reserve as a comparatively small amount of gold was necessary to work the exchanges. The test as to whether the currency is inflated or not may be applied at any time and consists in this, that the price of gold bullion can never exceed the Mint price unless the currency in which it is paid is depreciated below the value of gold. In other words, if more French francs than the Mint price are required to purchase an ounce of standard gold that is proof that inflation exists and that the currency is depreciated. I gathered from this interview at the Ministry of Finance and with conversations with M. Sergent, who was Chairman of the Experts Committee, and M. Masson of The Crédit Lyonnais, that if the country supported the policy of the Government an attempt would be made

after the elections in April or May to carry out the actual stabilisation of the franc at or about the existing rate of exchange, namely, 125 francs to the pound. Some bankers were dubious as to Monsieur Poincaré himself retaining his present office of Minister of Finance and advocating the necessary decree, but public opinion is ripe for action to be taken, and should there be any prolonged delay, I believe discontent and unrest will follow. Foreign public opinion is strong for stabilisation, and no nation, however powerful, can disregard the opinions of its neighbours. But I am sanguine as to the prospects of a comparatively early stabilisation and believe that France will once again resume her place in the comity of nations by taking the necessary steps and as a result confer a benefit on her own people and do likewise to the rest of mankind.

V

MONETARY POLICY

THE question now remaining for solution in this country, before we can say that we possess what Ricardo defined as a perfect currency, is the control and transfer of the Treasury Note Issue to the Issue Department of the Bank of England. There has been some difference of opinion among bankers as to amending or altering our banking system when this transaction takes place. The opinion is held by the majority, I think, of bankers and traders that, whatever amendment may be necessary should be based upon the principles of the Bank Act of 1844. The principle of that Act was to guarantee the convertibility of the note.

Sir Robert Peel adhered to the principle that the notes should conform in amount to the coins they represented, whereas Adam Smith and Ricardo held that immediate convertibility with security would prevent excess of issue. The latter view appears to be the sounder one, and provides for some measure of elasticity, which is certainly a thing to be desired. The German pre-war system provided for a tax of 5 per cent. to be paid by the Bank on the amount of circulation in excess of that which had been assigned.

This device worked well before the war and is worth considering in any legislation which may be contemplated in the future. Mr. F. C. Goodenough, the head of Barclay's Bank, wrote to me recently that, 'all that is required in regard to the currency is to fix the amount of the Fiduciary Issue (which might be done upon the recommendation of those who formed the recent Committee on Currency and Bank Note Issues), and that an amendment to the Bank Charter Act of 1844 might be made embodying such recommendation, which should run for a period of say ten years or thereabouts, when the whole position might be again reviewed in the light of conditions which might be then existing. I think that procedure on these lines would be simple and effective.'

It is not unlikely that legislation will be proposed in the near future which will give effect to the transfer of control of the Treasury Note Issue to the Issue Department of the Bank of England. It will, I believe, be a comparatively simple matter. But there are certain weighty considerations which I think ought to be borne in mind in carrying through this important transaction. The principal reason for making the transfer of control is that, as Adam Smith has well said, when this power of issuing inconvertible paper money has been handed over to any body of men constituting a Government, it has invariably been abused.

It is therefore advisable to place this power in the hands of an independent and responsible institution like the Bank of England, which, so far as this

function is concerned, is free from interference by the Government of the day in any shape or form. The Bank of England or the Directors of that institution have, no doubt, made mistakes during the long period of its existence, but no one will question their integrity or assert they have ever put the interests of the Bank before those of the public, and the skill and foresight with which their monetary policy has been conducted has justly won for that institution a unique, and indeed a great, place in the history of this country. At the same time, the power of issuing notes will constitute a valuable monopoly, and it is just and fair that the profits derived from the issue of notes should accrue to the State. The Bank will be paid, of course, for its expenses, services and administration.

I do not mean that all governments are irresponsible and cannot be trusted to manage or conduct certain operations on behalf of the people. A government might be said to fulfil two functions: one the act of governing in an executive sense, and the other that of trustee or a reserve power to which the people may turn in certain circumstances. If too much is thrown upon a government in an executive sense, as, for example, in Russia, then it loses its power as a trustee, and there is no one or body to which the people can turn when the occasion demands it. Banking and the handling of money is a very scientific business, requiring great skill and knowledge if it is to be successful. This success is more likely to be developed in perfect freedom and

particularly freedom from interference on the part of the government. The same thing applies to all arts and crafts, which naturally thrive in a free atmosphere, and wither where there is restriction and undue restraint or interference. There is also the stimulus of private profit or gain which brings out the inventive faculty of man, and which would be apt to be stifled under a state ownership. This is not to state that there are certain community interests which can and are admirably carried out by the state to the advantage of all the citizens. The Committee on Currency and Foreign Exchange appointed after the War (commonly known as the Cunliffe Committee) supports the principle of the Bank Act of 1844, namely, that there should be a fixed fiduciary issue beyond which, subject to certain emergency arrangements which they recommend, notes should only be issued in exchange for gold. The following are the clauses in the Bank Act of 1844 under which the issue of Bank of England notes are regulated.

II. And be it enacted, ' That upon the thirty-first Day of August one thousand eight hundred and forty-four there shall be transferred, appropriated, and set apart by the said Governor and Company to the Issue Department of the Bank of England, Securities to the value of fourteen million Pounds, whereof the Debt due by the Public to the said Governor and Company shall be and be deemed a Part ; and there shall also at the same time be transferred, appropriated, and set apart by the said Governor and Company to the said Issue Department so much of the Gold Coin and Gold and Silver Bullion then held by the Bank of England as shall not

be required by the Banking Department thereof; and thereupon there shall be delivered out of the said Issue Department into the said Banking Department of the Bank of England such an Amount of Bank of England Notes as, together with the Bank of England Notes then in circulation, shall be equal to the aggregate Amount of the Securities, Coin and Bullion so transferred to the said Issue Department of the Bank of England; and the whole amount of Bank of England Notes then in circulation, including those delivered to the Banking Department of the Bank of England as aforesaid, shall be deemed to be issued on the Credit of such Securities, Coin and Bullion so appropriated and set apart to the said Issue Department; and from thenceforth it shall not be lawful for the said Governor and Company to increase the amount of Securities for the Time being in the said Issue Department, save as hereinafter is mentioned, but it shall be lawful for the said Governor and Company to diminish the amount of such securities and again to increase the same to any Sum not exceeding in the whole the sum of fourteen million Pounds, and so from Time to Time as they shall see Occasion; and from and after such transfer and Appropriation to the said Issue Department as aforesaid it shall not be lawful for the said Governor and Company to issue Bank of England Notes, either into the Banking Department of the Bank of England, or to any Persons or Person whatsoever, save in exchange for other Bank of England Notes, or for Gold Coin or for Gold or Silver Bullion received or purchased for the said Issue Department under the Provisions of this Act, or in exchange for Securities acquired and taken in the said Issue Department under the Provisions herein contained: Provided always, that it shall be lawful for the said Governor and Company in their Banking Department to issue all such Bank of England Notes as they shall at any Time receive from the said Issue Department or otherwise, in the same Manner in all respects as such issue would be lawful to any other Person or Persons.

III. And whereas it is necessary to limit the Amount of Silver Bullion on which it shall be lawful for the Issue Department of the Bank of England to issue Bank of England Notes: Be it therefore enacted, That it shall not be lawful for the Bank of England to retain in the Issue Department of the Said Bank at any One Time an Amount of Silver Bullion exceeding One fourth Part of the Gold Coin and Bullion at such Time held by the Bank of England in the Issue Department.

IV. And be it enacted, That from and after the Thirty-first Day of August One thousand eight hundred and forty-four all Persons shall be entitled to demand from the Issue Department of the Bank of England, Bank of England Notes in exchange for Gold Bullion, at the rate of three Pounds seventeen shillings and ninepence per ounce of standard gold; Provided always, that the said Governor and Company shall in all cases be entitled to require such Gold Bullion to be melted and assayed by Persons approved by the said Governor and Company, at the expense of the Parties tendering such Gold Bullion.

V. Provided always, and be it enacted, That if any Banker who on the Sixth Day of May One thousand eight hundred and forty-four was issuing his own Bank Notes shall cease to issue his own Bank Notes, it shall be lawful for Her Majesty in Council, at any time after the Cessation of such Issue, upon the Application of the said Governor and Company, to authorize and empower the said Governor and Company to increase the Amount of Securities in the said Issue Department beyond the total Sum or value of fourteen million Pounds, and thereupon to issue additional Bank of England Notes to an Amount not exceeding such increased amount of Securities specified in such Order in Council, and so from Time to Time, Provided always that such increased amount of securities specified in such Order in Council shall in no case exceed the Proportion of two-thirds the amount of Bank Notes which the Banker so ceasing to issue may have

been authorized to issue under the Provisions of this Act; and every such Order in Council shall be published in the next succeeding *London Gazette*.

These clauses will be seen to be rigid and inelastic and in view of the suspension of the Act during the War will necessitate amendments.

Personally I adhere to the principle laid down by Adam Smith and Ricardo, that where there is immediate convertibility with security, an excessive issue is thereby guarded against. I should therefore, with this proviso of convertibility, recommend a limit of the fiduciary issue based upon experience and a gold reserve of £150,000,000, and I agree with the recommendation of the Committee that the provisions of Section 3 of the Currency and Bank Notes Act of 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit, should be continued in force, any profits derived from this issue to be surrendered to the State. It should also be provided by statute that Parliament should be informed forthwith of any action taken by the Treasury under this provision by means of a Treasury Minute which should be laid before both Houses. It will be necessary, of course, as the Committee state, that the Bank rate should be raised and maintained at a figure sufficiently high to secure the earliest possible retirement of the excess issue. The Cunliffe Committee state in their report with reference to the transfer of control that 'When the Fiduciary portion of the issue has been reduced to the amount which

PREFACE

It was well said by Daniel Webster when America was passing through a similar experience to that which we have recently passed through in this country that ' he who tampers with the currency robs labour of its bread.' The policy of tampering with the currency, or in other words pursuing a policy of inflation, was indulged in by all the belligerent nations during the Great War, with the exception of the United States of America. Those who defended that policy argued that under the circumstances it was inevitable, but I have seen nothing to prove that assertion. On the contrary, all the evidence goes to show that it was no more justifiable to alter the standard of values than to alter the yard measure, and the most encouraging fact to-day is that most of the nations who practised inflation have ceased to do so. The universal desire of nations now is to restore their currencies to a gold basis and to promote that stability of exchange which is the foundation of a prosperous and expanding trade. It is a source of pride that Great Britain has for the second time during a period of a little more than a hundred years in her history restored her currency to its pre-war parity, and her

experience shows to be consistent with the maintenance of a gold reserve of £150,000,000 in the Issue Department of the Bank, the outstanding Currency Notes should be retired and Bank of England notes of low denomination substituted, the Bank of England fiduciary issue being simultaneously increased by an amount equal to the then issue of Currency Notes covered by Government securities. Those securities should be either Ways and Means advances or Treasury Bills and other marketable securities, being part of the ordinary Public Debt, and should be taken at current market value. The Bank of England notes of small denomination would be issued by the Bank in place of the currency notes withdrawn from circulation partly in substitution from the Bank of England notes returned to them from the Currency Note Reserve (which would already be covered by gold in the Issue Department) and partly in respect of the Bank's new fiduciary issue based on the transferred securities. The profits of the increased fiduciary issue would be payable by the Bank to the Exchequer.'

A sound monetary system should aim at maintaining stability of money rates, that is a stable rate of interest. What chiefly governs the rate of interest? There are, of course, various contributory causes; but the principal cause is the proportion which the loanable capital of the world bears to the fixed or funded capital. When the supply of loanable capital is increased the rate of interest falls and the price of securities rise, and the contrary takes place when,

as now after a great war, the supply of loanable capital has been reduced with a consequent fall in the price of interest-bearing securities. To increase the available supply of loanable capital a policy of drastic economy in administration is necessary, and, if applied, will have an immediate beneficial effect, but time is necessary to enable the world's supply of capital to be permanently increased.

Some critics condemn the banking and monetary system which centres in the Bank of England of this country as being obsolete, and they point to the Federal Reserve system of America as the model system. The Federal Reserve Act provided for a division of the United States of America into twelve districts, each district containing approximately from 500 to 700 National Banks. The National Banks in each district unite in forming a new bank called the Federal Reserve Bank, to which each bank contributes six per cent. of its paid-up capital. The total capital of the twelve banks is a little over one hundred millions of dollars. Each Federal Reserve Bank is managed by a Board of Directors of nine members, three of whom are appointed by the Federal Reserve Board and six by the member banks. All banks are under the control of the Federal Reserve Board, which consists of the Secretary of the Treasury and the Comptroller of the Currency *ex officio* and five Directors appointed by the President and confirmed by the Senate. The Act also provided for a Federal Advisory Council, one member of which is elected by each Federal Reserve Bank. This in brief outline

is the Federal Reserve Bank system, which so far has worked admirably in the United States of America and appears to be suited to that country. Some critics object that the new system does not promise to give to the note issue the degree of contractibility which has heretofore been considered desirable. In fact, however, the new system makes ample provision for the expansion needed to reduce to comparative harmlessness any panic which might arise, and on the whole it appears to be as sound as human ingenuity can make it at the present time. To substitute such a system for our own well-tried banking and monetary system is another matter, and it is very doubtful if it would be so suitable for a country, such as Britain, which depends for its very existence upon its foreign trade. With some amendment providing a measure of elasticity, we have in our own banking and monetary system centring in the Bank of England an instrument which responds instantly to any excessive speculation or overtrading that may occur. Under our own system, with all its faults, this country built up before the war a foreign trade second to none in the history of the world.

It is our British habit rather to progress along ordered and well-considered lines than to make sudden adaptations of foreign methods. The British Constitution has been the growth of centuries and is the best example of its kind. The American Constitution was the result of the cogitations of the best available brains steadily and continuously

applied at Philadelphia for three years, and is also the best example of its kind.

It is not our habit to destroy but rather to amend and adapt our institutions and systems to the needs of the time, and it is along these lines that such reforms as may be necessary will eventually be adopted.

There is a disposition in some quarters to point to the enormous increase in the deposits and the money in circulation in America as an indication of the superiority of their monetary system. That is to mistake the effect for the cause. A recent cotton crop in America amounted to seventeen million bales as against an average crop of about eleven million bales. A crop of seventeen million bales will require more currency to move it than one of eleven millions, but it is the crop which calls for the currency, not the amount of the currency in the country which creates the crop. When comparing the amount of deposits in the banks in this country with the amount during the inflationary period, it must be borne in mind that the pounds now are good pounds and therefore more valuable in that they purchase more than the inflated or debased pounds of former years. In some quarters, again, the fear is expressed that we shall be faced with a shortage of gold, because of so many countries adopting or restoring the gold standard. This, we are told, will entail a further drop in the prices of commodities. And indeed a further drop may be expected to take place. On the other hand, this fear

is exaggerated, as I have endeavoured to show in previous chapters, and, as a result of the fall in the prices of commodities which has already taken place, gold mining is becoming more profitable, and while some further reduction in prices of commodities may take place, the tendency will be towards stability and uniformity in prices among those countries which have adopted the gold standard. As a result of sound financial conditions prevailing both at home and abroad, credit will expand, the rate of interest will tend to fall, and the stimulus of cheap money applied to trade will eventually lead to an expansion of world trade in every direction. The movement among the central Banks in various countries to consult and co-operate is a step in the right direction; but there is no short cut to prosperity. That depends upon many things, some of which are entirely beyond our control, but the risk of failure has been reduced enormously of late years and there is no reason to anticipate it.

In September 1925 I accepted an invitation to visit Vienna and to deliver an address on 'The Gold Standard and International Trade' before the Central European Economic Conference, which was being held in that city. In my address I reminded the delegates, who came from all parts of the continent, that this was the second time in the history of Great Britain within a period of a hundred years that she had returned to the gold standard without any devaluation in her standard of values; and that, according to an estimate by the British Treasury of

the results of the restoration, the saving to the British taxpayer in the repayment of the debt to America with the exchange at par instead of at its former discount would amount to no less a sum than £338,000,000. While it would no doubt be impossible or undesirable for Italy and France now to attempt to restore the former parity of 25 francs to the pound sterling, these countries in making their payments on their external debts and obligations would gain by stabilising their currencies on a gold basis. Their credit would improve, and their trade with all countries would be promoted. The violent fluctuations in exchange which had prevailed during the last ten years had crippled and handicapped foreign trade to an enormous extent. A sound monetary policy must aim at promoting similar conditions in all countries as the only real foundation for a prosperous trade. In relation to monetary policy another important matter has to be considered, viz.: the financial obligations of a State. Reference has already been made to the necessity for economy in administration and to the question of disarmament. But it may be assumed too hastily that reforms intrinsically desirable and advantageous may be proposed without having regard to the state of the money market. There is the question, for example, of the State purchasing the mining royalties of this country. The proposal has much to recommend it. Its cost is estimated at about £100,000,000, and it is argued that this formidable transaction merely means a transfer of ownership and the completion

of it will have no effect on the money market. This is not so. Apart from the merits of the proposal, the capitalisation of the value of the mining royalties of the country on a basis of so many years' purchase, and the funding of this considerable sum resulting in an addition to the capital amount of the national debt cannot but affect the money market. This fact should be borne in mind by those who advocate the immediate execution of the proposal.

In a lesser degree consideration must also be given to the finance of providing long and short-dated credits for the farming community. Economy means a wise expenditure, and both these proposals merit support as likely to prove fruitful and reproductive, but the financing of the proposals requires to be considered in conjunction with the other liabilities of the State and the condition of the money market at the time.

Hence once more the importance of arbitration and reduced expenditure on armaments as likely to expedite the carrying out of social reforms.

Assuming a supply of loanable capital as a result of such a policy it could not be better employed than in helping to restore prosperity to agriculture. Land banks, and short-term and long-term credits issued under a carefully drawn-up guarantee of the Government would all be helpful in promoting this object. If these credits were wisely advanced they would, under efficient management, increase the productivity of the land, and prove a good investment for the State. In an industrial and manufacturing

country, such as this is, however, the ultimate prosperity of farming depends largely upon the general prosperity of trade. When trade is good and there is a demand for the produce of the soil, then farming shares in the general prosperity.

VI

CONVERSION OF THE NATIONAL DEBT

It is impossible to calculate the loss to this country resulting from the financial blunders committed during the war. The Crimean War was the best financed of any of our wars ; and then we had the illustrious Gladstone at the Exchequer. It is, I think, an accurate statement that the proportion of war expenditure drawn from taxes as opposed to loans has gone steadily downwards since the Crimean War. It was about 40 per cent. in the Napoleonic War, 50 per cent. in the Crimean War, 33 per cent. in the Boer War and about 25 per cent. in the Great War. In addition to the large proportion of cost borne by loans in the Great War, we have to add the loss and depreciation in our credit resulting from the debasement of our currency. When we come to consider our financial policy since the war, and more particularly the various schemes for the conversion of the National Debt, there does not appear to be any cause for self-congratulation. Since the Armistice the general rate of interest for loanable capital has tended downwards. This tendency still continues ; and it can be increased by the creation of new capital and by economy in administration.

Hence it was surely the duty of a prudent Chancellor to have issued short-dated securities bearing the existing rate of interest at or about par. This would have tided over the period of comparatively dear money; and when these securities became due for payment they could in all probability have been refunded into a long-term security bearing a very much lower rate of interest. Such a policy, if successful, would have resulted in saving millions of pounds to the taxpayer.

Mr. Winston Churchill has thought otherwise. He has persisted in a policy which is costly and extravagant. By issuing new stock at a large discount for the purpose of converting the debt he has already, on his own admission, added £55,000,000 to the National Debt. When questioned in the House of Commons as to the advisability of pursuing this policy, he replied that while he regretted the necessity borrowers could not be choosers, and he was pleased, apparently, when his offers were greedily accepted. Not only does this policy result in a large addition to the capital amount of the debt, but it fixes for a long period, say thirty years, the annual interest charge of about 4¾ per cent. on a large part of the debt. By allowing holders of the debt the right to convert their holdings into a long term security on this basis, he is precluded from refunding these portions of the debt at a lower rate. It may be argued that it is impossible to state with accuracy what will be the future value of money and the rate of interest in three or five years' time.